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Unrecorded Cross-Border Trade Between Malawi and Neighboring Countries

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Foreword

This study of unrecorded trade between Malawi and her neighbors forms part of a larger activity, covering countries across eastern and southern Africa. Using innovative and practical border observation techniques to quantify cross-border trade, these studies examine in great detail not just how this trade is being carried out but also who is involved and its impact of food security. The constraints to formal cross-border trade in Malawi revealed here demonstrate the gravity of the bottlenecks and the urgency with which Governments, at national and/or regional levels, need to address this problem. The study also suggests that the implicit welfare gains arising from unrecorded trade in food commodities far exceed the value of the lost government tax revenue. Unofficial trade is a pointer to the comparative advantage existing in respective countries and to the vital food security role the private sector can play in moving commodities from one part of the region to another, often against serious barriers imposed by governments.

The achievement of food security is one of the region's key development challenges articulated by USAID and also represents a major component of various ongoing strategic initiatives. By emphasizing free trade and underscoring the importance of rational trade policies and removal of anti-trade practices, this study offers a new policy option that may guide efforts of USAID and other regional institutions and initiatives in addressing the challenges of assuring national and regional food security.

This report adds significantly to our understanding of unrecorded cross-border trade in the region and should form the basis of future policy formulation and strategies on the subject. It is one in a series of studies on Africa's regional trade and comparative advantage, a joint activity of USAID Africa Bureau's Office of Sustainable Development, Productive Sector Growth and Environment Division (AFR/SD/PSGE) and the Regional Economic Development Services Office for Eastern and Southern Africa (REDSO/ESA).

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This report is a result of a combination of efforts of many individuals and institutions from both the private and public sectors. Chris Ackello-Ogutu conceptualized the methodologies and Naomi Ngwira, a former member of staff of APRU, served as the National Coordinator for the study in the first ten months. She also co-authored the first two-months report for the study. The project was financed by the USAID-REDSO/ESA based in Nairobi and administered by Technoserve Inc. The final report was reviewed by Sam Mwale and edited for *SD Publication Series* by Chris Ackello-Ogutu and Protase Echessah. These contributions are gratefully appreciated.

This study would not have been possible without the cooperation of highly placed government field staff in the study areas. We would particularly wish to point out M. M. Ngwira, Principal Assistant Controller of Customs and Geoffrey Mkandawire, Chief Trade Officer, for their support, cooperation and understanding in facilitating the implementation of the study.

The supervisors and monitors worked extremely hard, sometimes under difficult conditions in strange environments. Due to logistical problems, we were sometimes unable to reach them for support and backstopping as required by the schedule. All the same, they worked diligently to accomplish the assigned tasks. The traders, transporters, couriers and money changers deserve thanks for demonstrating a high degree of cooperation in providing answers to the many questions from the monitors. Their open and frank discussions with the monitors enabled the generation of the much needed data and information for this study.

The study team wishes to recognize the attendance, participation and contributions of the participants of a one-day workshop held before the completion of this report. The workshop aimed at obtaining feed back from government and private institutions on the preliminary report of this study. We sincerely appreciate their contribution.

The University of Malawi, in particular, the administrators of Bunda College of Agriculture, supported the study in many valuable respects. Team effort on the part of the Agricultural Policy Research Unit staff enabled smooth implementation of the study. We sincerely appreciate the support and encouragement.

The team is, however, solely responsible for the content, omissions and any shortcomings of the study.

Executive Summary

RESEARCH PROBLEM AND OBJECTIVES OF THE STUDY

The study on the informal cross-border trade between Malawi and her neighbors was one of several studies on this type of trade, covering the east and southern Africa region. The studies were conducted in an attempt to provide answers to the question of how significant the informal cross-border trade was to local, national, and regional food security. Before these studies, there was evidence indicating that informal cross-border trading in agricultural and non-agricultural commodities between neighboring countries was an important economic activity, in some cases, several times the level of the formal cross-border trade.

The same evidence also indicated that substantial volumes of food commodities were traded across the borders. These food commodities were traded to offload seasonal surpluses, to offset seasonal deficits, and to supplement domestic food supplies to towns and cities. Because these food commodity flows were not recorded, it was difficult to make an analytical assessment of their contribution to local, national, and regional food security. The same was true of the non-food commodities and their contribution through employment and income generation.

This series of studies therefore set out to record the volume and value of the informal cross-border trade. The informal cross-border trade was defined as consisting of those goods that were exchanged across the borders; either by-passing the official customs checks and recording points, or passing through these customs points while deliberately under-valued, misspecified, or unrecorded. The implication in both cases was that the informal cross-border trade was not well captured in the national accounts.

The study set out to capture the volume and value of the informal cross-border trade in Malawi, and to provide quantitative and qualitative information on the impact of this trade on the local, national, and regional food security. The specific objectives of the study were to:

- provide estimates of the magnitude of the unrecorded trade, highlighting the most important commodities and categories of the commodities being traded, and the trade patterns**;**
- provide an overall analysis of how informal cross-border traders overcame the major constraints facing formal cross-border traders;
- give a comparative analysis of the recorded and unrecorded trade volumes, highlighting the factors determining the disparity between the two sets of figures;
- provide an overall assessment of the impact of the informal cross-border trade on the national food security; and
- make recommendations on the steps that have to be taken to enhance trade between Malawi and her neighbors.

THE METHODOLOGY

The methodology used in monitoring the informal cross-border trade in Malawi closely followed the procedures outlined in “Methodologies for Estimating Informal Cross-border Trade in Eastern and Southern Africa” by Ackello-Ogutu (1995). The study sought to estimate the annual volume and value of trade that did not go into official records during the monitoring period. The official and unofficial cross-border trade was concentrated in and around established towns and customs points along the borders. The unofficial routes were usually around these locations rather than in the more remote frontier regions.

The initial selection of the routes to be monitored was based on local knowledge of the volume of informal trade along a proposed study site. Other practical issues considered during site selection included communication and transport links, the availability of supporting institutions, and the availability of suitable personnel. The border regions chosen for monitoring during the study were Karonga district on the Malawi-Tanzania border; Mchinji district on the Malawi-Zambia border; and Dedza, Ntcheu, Mwanza and Mulanje districts on the Malawi-Mozambique border. The distribution of the specific sites was as follows: two sites in each of the four districts of Karonga, Mchinji, Dedza, and Mulanje; and one each in Ntcheu and Mwanza districts.

The criteria for choosing the ten study routes, was based on each routes' ranking in terms of the volume of trade passing through and the value of trade per monitoring month. In instances where the routes were equally ranked, especially in terms of the value of trade, priority was given to those routes that had a greater volume of agricultural commodities because of the latter's contribution to food security. The trade routes were surveyed for a period of 12 consecutive months beginning April 1995. Each of the 12 months was divided into four quarters, two of which were randomly selected for monitoring. A typical monitoring day began at six in the morning and ended at six in the evening; night monitoring was not done because of safety considerations. Data were collected through observation but monitors would at times stop the traders to seek details or physically check the consignment.

The enumerators used pre-coded monitoring sheets to collect the following information: volume exported/imported of a given commodity, mode of transport used, and gender of the trade participants. Changes in the local currency exchange rates and commodity prices were recorded as they occurred. Interviews with key persons were conducted along the border regions with the aim of obtaining a better understanding of their perception, and the nature and trends of informal cross-border trade. Secondary data were used to complement the primary data collected through the monitoring process. Sources of secondary data included the National Statistics Office, Department of Customs and Excise, Commerce and Industry and the Ministry of Agriculture and Livestock Development.

A stock-taking approach was used to collect data at open markets which served as informal trading routes. Lizulu in Ntcheu district was one such market. It served both as an informal trade route and also as a market during certain days of the week. On the market days (Wednesdays and Saturdays), two monitors were assigned to take an inventory of the major commodities being traded once in the morning and late in the afternoon when the market was about to close. The same approach was used for surveying all the relatively big open markets that also served as informal trading routes.

SUMMARY OF THE FINDINGS

A Profile of Informal Traders: How They Overcome Barriers Faced by Formal Traders

Trader Profiles: The majority of the traders were residents of townships or communities close to the border towns where they operated. This minimized their expenses on transport and accommodation. The traders also spent minimally on performing some of the market functions such as storage, sorting, cleaning and repackaging of the goods which formal traders generally undertake in order to add value.

Several factors, some of them cultural, played a role in the type of activities women undertook in cross-border trading. These included the type of commodity and the mode of transport. Transactions in some commodities were gender segregated with women playing a prominent role in the trading of agricultural produce such as vegetables and firewood. Some modes of transport were also gender segregated; for example, women did not typically ride bicycles and therefore were largely limited to portage.

At Karonga market, the export trade was wholly dominated by men, with women accounting for only 4% of the observed traders. Men dominated in all the commodities but women were better represented in the trading of vegetables, hardware and second-hand

clothes. At Mchinji, women traders hired male couriers to avoid the customs check points, and may have been under-counted, while along the Malawi-Mozambique border, women dominated the firewood trade (64%), and were important in the vegetable trade. Where large populations existed close enough to the border as in the case of Mozambique border, women participated more actively and their need to hire men as couriers was minimized.

Transportation: It was observed that the informal traders used vehicles, bicycles, portage, and canoes depending on the type of commodity being transported, the surrounding terrain and other conditions along the border. Natural boundaries such as the Songwe river at Karonga (Malawi-Tanzania border), and the Ruo River at Mulanje (Malawi-Mozambique) were crossed by canoes. In areas with good roads such as Mchinji and Karonga, a combination of modes of transport was used to avoid customs points.

The price charged for transporting the goods depended on risks associated with the terrain and the possibility of the goods and equipment being impounded by customs officials or the police. For example, among the exporters, bicycle usage averaged 62% at Karonga (Malawi-Tanzania border), 82% at Mchinji (Malawi-Zambia border), and 78% at the Malawi-Mozambique border (Dedza, Ntcheu, and Mulanje). Vehicle usage was less common, ranging from a relatively high level of 41% among the importers at Karonga, to a much lower level of 15% at Mchinji, and a tiny 2% at the Mozambican border. Portage was insignificant at Karonga and Mchinji but important along the Mozambican border where it accounted for just over 20% of all cases. This is because of the poorly developed infrastructure and the low value of the agricultural commodities that make up the bulk of the trade with Mozambique.

Financing: The study found that informal cross-border trade flourished in areas that had well established parallel money markets nearby. The exchange rate depended on the value and demand of the commodity in question. For example, the sugar trade between Malawi and Tanzania and Malawi and Zambia led to an appreciation of the Malawi Kwacha against the other currencies. Typically, business was transacted in local currencies, with the Malawi Kwacha being the preferred currency. However, the traders were familiar with the prevailing dollar exchange rate, with truck drivers and the business community from major towns such as Chipata, Lilongwe and Blantyre supplying the necessary information to the parallel money markets.

Due to the small-scale nature and lack of security, informal traders hardly applied for working capital from formal lending institutions. The range of commodities was wide with few traders showing any degree of specialization. This diversification of commodities coupled with the small-scale nature of the operation not only minimized their risks but also ensured that both initial capital and financing of daily operations could be achieved from own savings rather than from private money lenders who often charge exorbitant interest rates.

The Types and Value of Commodities Traded

The study distinguished between informal cross-border trade in agricultural goods and that in non-agricultural goods. The agricultural goods included maize, pulses, vegetables, Irish potatoes and fertilizers; the last being included in that category due to its strong link to agriculture. The most important non-agricultural goods were sugar, new and second-hand clothes, Carlsberg beer and soft drinks. The volume, value, and the direction of trade flow in agricultural goods was seasonal and was influenced, as one would expect, by the agricultural production cycle.

The Malawi-Zambia informal trade was monitored from the Mchinji border. Malawi exported non-agricultural commodities valued at US$ 2.6 million, with agricultural commodities accounting for only US$ 732,000, or 22% of total exports valued at US$ 3.3 million. The main agricultural goods exported by Malawi were maize products, potatoes and beans which were exchanged for large quantities of fertilizers from Zambia. Sugar, which was categorized as an industrial good, was a major export from Malawi. Other non-agricultural exports were soft drinks and Carlsberg beer. Zambia in turn exported mainly new and second-hand clothes. All the imports were valued at US$ 17.2 million with agricultural and non-agricultural commodities accounting for US$ 7.9 million

(46%) and US$ 9.3 million (54%), respectively. The balance of trade was in Zambia's favor for both agricultural and non-agricultural commodities.

The Malawi-Mozambique informal trade was monitored from four border districts: Dedza, Ntcheu and Mwanza on the western border region, and Mulanje on the eastern border region. Malawi exported non-agricultural commodities valued at US$ 2.9 million, with agricultural commodities contributing US$ 945,000 (32%) of the total exports. Malawi's agricultural exports were mainly fertilizers, maize, and potatoes; while its main imports from Mozambique were potatoes, vegetables, pulses, maize, and fertilizers. Malawi's main non-agricultural exports were sugar, second-hand clothes, cement, and new clothes, while its main imports in this category from Mozambique were second hand clothes and salt.

The imports were valued at US$ 6.8 million, with agricultural commodities comprising US$6.5 million (96.0%) and non-agricultural products US$ 255,000 (4.0%). Mozambique was the most important source of informal food imports, providing about 70% of the volume observed during the study. The balance of trade was in Mozambique's favor for agricultural commodities (US$ 5.6 million) and in Malawi's favor for non-agricultural commodities.

The informal cross-border trade between Malawi and Tanzania was observed at the Karonga border. This trade was more balanced than that between Malawi and Zambia, or Malawi and Mozambique. Malawi's agricultural exports were mainly rice, groundnuts, fish and maize valued at US$ 762,000; while it imported beans, vegetables, potatoes, and bananas from Tanzania valued at US$ 660,000, giving Malawi a small positive trade surplus in agricultural goods. Similarly, trade in non-agricultural goods between Malawi and Tanzania was balanced by Malawi's exports of sugar, Carlsberg beer and other products all of which were valued at US$ 5.7 million. Imports from Tanzania comprised new and second-hand clothes, electrical goods, kitchenware and other products valued at US$ 5.8 million. The overall trade balance was estimated at US$ 91,000 in favor of Malawi, the only informal trade surplus the country showed during the study period.

The total trade between Malawi and its neighbors amounted to US$ 44.0 million. Agricultural exports from Malawi were valued at US$ 2.4 million, while its imports were valued at US$ 15.0 million. Non-agricultural exports were valued at US$ 11.3 million, while imports were valued at US$ 15.3 million. Total exports were valued at US$ 13.7 million, while total imports were valued at US$ 30.3 million. In regional terms, of the US$ 44.0 million informal cross-border trade observed, the greatest share was contributed by Zambia (39%), followed by Malawi (31.1%), Mozambique (15.3%), and Tanzania (14.6%).

Analysis of Cross-Border Trade in Selected Commodities

Maize: Over half of the informal maize exports at the trade routes observed went to Mozambique (58%), a little over a quarter to Zambia (29%), with just over a tenth (13%) going to Tanzania. The total quantities of maize exported were not significant, amounting to only 4,505 tons. There were no maize imports recorded from Zambia or Tanzania, with all the recorded imports amounting to about 4,100 tons coming from Mozambique. The total value of the maize trade was relatively small: US$ 537,000 for exports and US$ 484,000 for imports.

Fertilizer: The relatively rigid fertilizer markets in Zambia provided incentives for outflows of about 17,000 tons to Malawi, about 17% of the estimated national consumption level of 100,000 tons. The Zambian traders took advantage of Malawi's recently liberalized fertilizer markets to sell US$ 7.8 million of fertilizer. At the same time, traders in both Malawi and Mozambique took advantage of the liberalized markets, so that as Malawi was exporting 900 tons (US$ 354,000) worth of fertilizer to Mozambique, Mozambicans were in turn exporting 770 tons (US$ 309,000) worth, giving Malawi a slight edge in the balance of trade of US$ 45,000. Fertilizer trade with Tanzania was insignificant.

Sugar: Sugar was the most valuable commodity, agricultural or non-agricultural, informally exported from Malawi to the neighboring countries. The country's sugar production in 1995/96 was estimated at 224.4 million kg while consumption was estimated at 146.7

million kg, realizing a surplus of 75.7 million kg. Of this surplus amount, 17.4 million kg (22%) worth US$7.9 million was exported to neighboring countries through the trade routes monitored by the study. It contributed to 70% of the value of all the non-agricultural exports and to 58% of the value of all exports. Malawi is a surplus sugar producer (Economic Report, 1996). Most of the sugar was exported to Tanzania (60%), with 13,250 tons worth US$ 4.7 million traded through the Karonga route. Zambia was the next most important market (25%), importing 2,319 tons valued at US$ 2.0 million, while Mozambique (15%) imported 1,877 tons worth US$ 1.2 million. No imports of sugar from the neighboring countries were reported along the monitored trade routes.

Textiles: Second-hand clothes constituted the most important category of non-agricultural imports observed along the monitored trade routes. Valued at US$ 10.2 million, the second hand clothes, contributed two thirds (67%) of the value of all of Malawi's non-agricultural imports, and one third (34%) of total imports. Although Malawi also exported second hand clothes during the same period to Mozambique worth US$ 1.2 million, it was a net importer to the tune of US$ 9.0 million dollars. Zambia was the most important source of these clothes, providing 86% of all imports valued at US$8.8 million, followed by Tanzania's exports of US$1.3 million (12%) and a tiny amount from Mozambique worth US$ 182,000 (2%).

In addition to being a net importer of second-hand clothing, Malawi was also a net importer of new textiles. Malawi exported new clothing materials to Mozambique (US$108,000), Zambia (US$79,000), and Tanzania (US$ 5,000). The country imported new textiles worth US$3.6 million from Zambia (US$514,000), Tanzania (US$3,056 million), and Mozambique (US$4,000). As in the case of second-hand clothes, some of the new textiles were re-exports.

Comparing Formal and Unrecorded Cross-Border Trade

The total value of Malawi's formal exports to the neighboring countries was valued at US$ 9.5 million, which was 69% of the estimated informal cross-border exports. Similarly, the total value of formal imports from Malawi's neighbors was estimated at US$ 18.9 million, which was 62% of the total value of informal imports. In all cases, except for trade with Mozambique, the value of formal trade was usually lower than that of the informal trade. In the case of Mozambique, Malawi's formal exports were about 33% greater than the informal ones. The total value of formal trade with all the neighbors (exports plus imports) was about 64% of total unrecorded trade but, considering the fact that only about 60% of the informal trade was captured by the survey, this estimate may be on the high side.

The value of revenue foregone by the Malawi government as a result of the informal cross- border trade in the agricultural commodities at the trade routes monitored was estimated at US$ 762,000 or MK 11 million. Assuming that the survey recorded only 60% of actual value of informal cross-border trade, the estimated revenue losses from untaxed agricultural commodities could rise to US$ 1.3 million, or MK 18.3 million.

Similarly, there were substantial revenue losses to the Malawi government from informal trade in non-agricultural commodities. The commodities considered for this calculation included the dutiable items of second-hand clothes, electrical goods, new clothes, kitchenware, shoes, and bicycle spares. For each of these commodities, the import duty was 45% with a surtax of 20%, except for shoes and bicycles which were dutiable at 50% and 40%, respectively, and surtaxes at 30% and 20%, respectively. The largest losses of revenue came from second-hand clothes (US$ 7.6 million), new clothes (US$ 2.6 million), electrical goods (US$ 534,000), and kitchen ware (US$ 385,00). The total revenue loss was estimated at US$ 12.0 million dollars or MK 181 million. This is an extremely large figure for a small economy such as that of Malawi. The figure was equivalent to about 4% of the 1996/97 budget.

Employment, Income and Food Security Benefits of Unrecorded Trade

Income generated from the unrecorded trade was estimated at about 25% of the value of the trade, implying that the border communities gained at least US$ 11 million in the form of goods and services. The employment and income generated by the trade provided income and thus increased access to food by the participants and their families, and also provided market opportunities for local producers. The trade in agricultural commodities provided three types of opportunities: during the period immediately after harvest, it provided markets for surplus farm produce and income to the local producers; during the long period between harvest and planting, the trade provided the producers with opportunities to invest their capital in other non-agricultural activities; and finally, the imports of grains, pulses and vegetables provided food to low income households in the major towns such as Lilongwe, Blantyre, and Zomba.

The presence of informal cross-border trade, particularly in agricultural commodities, stimulated the production of food commodities such as maize and potatoes on either side of the border by providing a market for surplus production. For the deficit households and regions, the trade increased the availability of these commodities on the local markets. In both instances, the supply of the commodities was increased, as a marketable surplus for the producers, or as purchasable commodity on local markets for the consumers. The income generated by the informal trade, as a result of the employment and receipts to producers, also made local food markets more competitive, providing increased access to food commodities by consumers as well as increased market efficiency. Although the quantities of food informally traded along the observed trade routes were not large, relative to the food needs of the country (for example, the quantity of maize traded was less than 5% of the production deficit), it can be assumed, however, that this quantity was significant locally, to those food deficit households within the proximity of the trade routes and thus enhanced their food security.

One of the key defining characteristics of informal cross-border trade is that it does not appear in the national accounts. Yet as has been shown above, the trade was economically significant. It is an important employer of persons, whether at the border regions, or those in the major cities such as Lilongwe, Blantyre, and Zomba, whose livelihoods depend on the flow of the agricultural and non-agricultural commodities.

The dynamic and spontaneous nature of the informal cross-border trading provides a picture of what truly deregulated trade would look like, in a world where there were no taxes to be paid, or quality and health standards to be complied with. It also provides a picture of the type of economic momentum that would be released if the stifling licensing, foreign currency, and other bureaucratic regulations were repealed. The agility with which informal cross-border traders undertake price arbitrage to take advantage of cross-border policy reforms or rigidities (e.g. fertilizer trade with Zambia) and structural deficiencies (e.g. beer and soft drinks trade with Tanzania and Mozambique), shows not only the potential of greater trade deregulation within the region, but also of the potential benefits of regional cooperation and coordination in trade policy reforms.

The preliminary findings of this study are an indication of the necessity of finding a way in which the dynamic energy, spontaneity, and agility of informal cross-border traders is formalized, without stifling or killing the activity. For this to happen, two preconditions have to be satisfied at the beginning: the governments have to confer economic and legal legitimacy on the informal cross-border trading, and, the informal traders have to recognize the legitimate revenue and regulatory roles of the government.

POLICY IMPLICATIONS

What are the necessary policy reforms that would enable Malawi not only to overcome the constraints that have led to the rise of this trade in the first place, but also ensure that the government has a role?

First, there is need to further deregulate the economy. The barriers to entry by entrepreneurs to formal trading such as the registration and licensing of traders, and semi-liberalized foreign exchange regulations, need to be reformed with a view to eliminating those that are redundant, and reducing to a minimum those that must be retained for good governance. The reduction of duties, and elimination of surtaxes is recommended. Similarly, the rationalization of tariffs on agricultural commodities is necessary; for example, why levy a 25% duty on beans, and none on maize or fertilizer. The reduction and rationalization of tariffs, and the elimination of unnecessary bureaucratic hurdles would go a long way in increasing the level of formal trade.

Second, there is need to harmonize the trade policy and internal market deregulation processes regionally so that all the regional countries, are in some form of tandem. Other areas of regional cooperation required relate to double taxation, harmonization of quality and health standards, and a common approach or law to contract enforcement and dispute arbitration. Similarly, it is important to adopt a more rational approach to local currency trading. Malawi and her neighbors should consider dropping the insistence on using the US dollar as the transacting currency for formal trade between them. This has been done in East Africa, where the Kenyan, Uganda, and Tanzanian shillings are mutually convertible, thus enabling formal trade to be conducted in these local currencies.

Third, cross-border trade in food commodities should be encouraged, with food deficit countries such as Malawi actively pursuing a regional food security strategy. For example, her neighbors, Tanzania, Mozambique, and Zambia, are endowed with abundant supply of land suitable for food production. By actively encouraging cross-border trade, Malawi could quite easily close the annual 250,000 tons food deficit, without diverting scarce national resources to importing such food from outside the region at far higher prices. A common food strategy by all the four countries to allow open and legal informal food trade would have significant positive food security implications for the region.

Fourth, the criminalization of the informal trade should be rescinded so as to create a better enabling environment for the assemblers, couriers, and money changers, who are generally tolerated at the discretion of the customs and police officers. Rather, some form of minimal legal recognition of these participants in the informal cross-border trade should be instituted. For example, the assembler or courier or money exchange associations could be granted some form of legal recognition, with *bona fide* members being provided with legal protection against harassment by police or customs officials, while being required to pay some form of presumptive customs tariff. The decriminalization of the informal cross-border trade, not only in Malawi, but in all the other countries covered by the ICBT study, would be a major step forward in creating momentum towards enabling this trade to play its rightful role.

RECOMMENDATIONS

The regional governments should view the movement of food commodities across their borders in a positive manner. In order to enhance trade in agricultural commodities, import duties should be abolished. The Malawi government's ability to collect the taxes is limited, due to poorly equipped customs points. The border itself is long and porous, while the local people living along it do not pay too much attention to it. At the time, the study results appear to indicate that the implicit welfare gains arising from the informal cross-border trade in food commodities probably surpass the value of the lost revenue.

There is a clear case for reducing the tariff rates on non-agricultural goods**,** because they are quite prohibitive; the combined rate of the customs duty and

surtax, exceeds 50%. The tariff reductions could be implemented in stages, commodity by commodity, with sufficient time being allocated for communicating the changes to those in the public and private sectors in order to avoid confusion. The gradual reduction in tariffs would allow the government and other stakeholders to observe their impact on the trade flows, the formal and informal trading behavior, and revenue collection.

As continued economic liberalization leads to even greater cross-border trade, with the informal trade transacted almost wholly in local currencies, there is a growing demand for governments to consider dropping the insistence on denominating regional formal trade in convertible currencies such as the US dollar. This study has provided evidence that shows high volumes (and values) of cross-border trade, and the extensive use of local currencies for cross-border transactions. The governments of the region should facilitate the use of local currencies in formal trade between them. There is some movement in this direction, with the governments' involved in regional efforts towards the full convertibility of the local currencies. This is going on within the context of the Common Market for East and Southern Africa (COMESA), and the Southern Africa Development Community (SADC).

The drive towards export diversification has largely focused on formal trade, and overseas markets. This study has shown that export diversification policies should also focus on regional markets which may have substantial potential for absorbing a wider range of agricultural and non-agricultural commodities, including those commodities that have been traditionally exported to overseas markets.

RECOMMENDATIONS FOR FUTURE RESEARCH

While the study's results have provided evidence of a vibrant and significant informal cross-border trade between Malawi and her neighbors, there is need for a longer period for monitoring of the activity. The study period itself was marked by several major changes: economic liberalization, political transition and recovery from drought. The 1995/96 season and the subsequent agricultural production in the region was above average. The data for this particular year may not have been sufficiently representative in terms of capturing the nature, magnitude, and the composition of trade. To validate the general results on the informal cross-border trade, the team proposes a longer observation period, with monitoring surveys carried out regularly for at least three consecutive years. The Agricultural Policy Research Unit at Bunda College of Agriculture should take a cooperation/coordination role for this activity.

Glossary of Acronyms and Abbreviations

ADMARC	Agricultural Development and Marketing Corporation (of Malawi)
APRU	Agricultural Policy Research Unit
ASAP	Agricultural Sector Assistance Program
CODA	Consulting and Development Associates
COMESA	Common Market for Eastern and Southern Africa
ESA	Eastern and Southern Africa
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
ICBT	Informal Cross-Border Trade
MASS	Malawi Agricultural Sector Study
MEPC	Malawi Export Promotion Council
MIPA	Malawi Investment Promotion Agency
MK	Malawi Kwacha (Malawi Currency)
MOALD	Ministry of Agriculture and Livestock Development
NSO	National Statistical Office
PTA	Preferential Trade Area
REDSO	Regional Economic Development Services Office (USAID)
SADC	Southern Africa Development Community
UNCTAD	United Nations Conference on Tariffs and Trade
USAID	United States Agency for International Development

1. Introduction

MACROECONOMIC AND SOCIAL OVERVIEW

Malawi is a small landlocked country in southern Africa and is bordered by Zambia, Mozambique and Tanzania. Although the country's population was estimated at only 9.7 million people in 1994, the population density is relatively high considering the available arable land. The economy is heavily dependent on agriculture which contributes about 40% of the Gross Domestic Product (GDP), 90% of the foreign exchange earnings (about 70% from tobacco) and about 75% of total employment (Economic Report 1996). The GDP per capita is estimated at US$100, with about 60% of the people earning below the absolute poverty ever estimated at US$30 annually (USAID 1995).

Malawi has one of the world's poorest human development indicators. The country faces a high population growth rate of 3.2% per annum with 59% of the population above 15 years being illiterate. The health status of the population is also poor: the under-five mortality rate is estimated at 221 per 1,000 (one of the highest in Africa) and life expectancy at birth is under 50 years (World Bank, 1996a). In addition to the poverty of its human resources, Malawi has a relatively narrow economic base compared to her neighbors. This is further constrained by the concentration of economic power in a few hands, limited foreign and domestic investment, and a limited mineral resource base.

Socio-economic conditions have worsened in the past five or so years because of several shocks. There were three droughts in four years between 1991/92 and 1994/95, non-humanitarian aid was suspended in 1992 until after the general elections in 1994 while the Malawi currency (Malawi Kwacha - MK) was floated in 1994. The same year (1994) saw a sharp rise in money supply, as government spending increased and revenues contracted in the period preceding the general elections.

Despite the country's weak socio-economic base, the government of Malawi is determined to complement the political democracy gained in 1994 with economic development programs that permanently improve the living standards of the people. The programs to be implemented include macroeconomic (structural adjustment) and the multi-sectoral and inter-ministerial poverty alleviation initiatives.

The major reforms contained in the Malawi structural adjustment programs as summarized by Cromwell (1992) viz:

- reform the tax system by broadening the tax base and increasing the proportion of revenue derived from income and company profits relative to trade;
- reduce the budget deficit (and government borrowing) as a proportion of GDP, through fiscal restraint and monetary stringency, in particular, in order to encourage expansion of the private sector;
- institute greater cost recovery on the part of the parastatals;
- decontrol prices and wages;
- maintain a competitive exchange rate and institute a flexible foreign exchange allocation system; and
- establish a target debt-service ratio and improve control over the servicing of foreign debts.

Despite maintaining a fixed exchange rate in the period preceding liberalization, Malawi was one of a small number of African countries that maintained her currency close to the market value. At the same time, foreign exchange accessibility was a major set back to international and regional exchange of goods and services. The fixed exchange rates subjected farmers and traders to prices which may not have reflected the

true market value of their goods and services. To obtain prices that reflected the true cost of the good and services during this period, farmers and traders would have to engage in illegal activities.

The preference for foreign currency remains a major hindrance to formal trading within the region. Countries in southern Africa prefer to officially trade using convertible currencies such as the US dollar in preference to local currencies. During the pre-liberalization period, all foreign exchange requirements were met by applying directly to the Central Bank. Despite liberalization, the regulations regarding foreign exchange transactions remain unclear thus providing a wide discretionary element in decision making. Applications for foreign exchange are still rarely honored in full. Even when it is possible to get the needed foreign exchange, the procedures are not only slow but also frustrating and cumbersome.

The following section addresses various restrictions of exchange of goods and services across national boundaries.

TRADE POLICIES AND RESTRICTIONS TO FORMAL TRADE

Trade provides benefits by allowing countries to export goods whose production makes relatively heavy use of resources that are locally abundant (Page, 1990). The factors affecting a country's trade volume, value, and flows, include its resource endowment, technology, pricing policy, infrastructure and markets. International trade allows countries to specialize in producing a narrower range of goods, thus encouraging greater efficiency through large scale production. This section places in context Malawi's evolving trading regime within the broader framework of regulations governing international trade. However, the international trade is not without restrictions even after considerable global deregulation and internal deregulation that started in the mid-1980s in Malawi. This section also attempts to illustrate informal cross-border trade (ICBT) as a reaction to the lack of transparency in the complex processes underlying national and international trade regulations.

Malawi operates a relatively liberal import and export license system under which, at present, only 30 commodities require an export license. The reasons for subjecting the selected goods to licensing are varied. For the importing country, licensing protects local industry from unfair competition. It also protects the local consumers by reducing moral hazard issues such as quality and safety of chemicals and poisons (for example salt imports) that could affect the health of consumers. Licensing is used to monitor the flows of crucial items such as staple foodstuffs and to conserve the national reserves of foreign exchange. Export licensing is used principally to conserve raw materials for manufacturing or processing locally, and to ensure food security in the country. In Malawi, import licenses are valid for six months from the date of issue, with opportunities for extension provided adequate explanations are made.

A critical examination of these policies shows that they are complex, vague, time consuming, not well understood and greatly biased towards large scale traders and industries. First, all formal importers and exporters must be registered. Following registration, they require an import or export license. In applying for the import license, traders are required to declare the origin of the goods, show copies of the letters of intent and order number, describe the quantity and value of goods, and give the custom tariff heading. The license is a prerequisite for getting foreign exchange to pay for the goods imported. Export license requires this same information plus information on the type of shipment and containers (Boxes 1 and 2). The particular licensing requirements vary by country and are in turn, determined by trade agreements between Malawi and each country or countries. Even the language used in these rules and regulations are foreign to the majority of the intended users: they are written in English, a language rarely used by the majority of the trade participants. All these barriers tend to encourage involvement in regulation-free informal cross-border trade.

Other official barriers to the development of trade in the past include government policies that restricted Asian businesses. Until 1994, business persons of Asian origin were allowed to operate only in specific

designated areas in the cities and townships. This group of business persons, who generally have good business skills and more capital than the typical village entrepreneurs, was denied access to trade in the rural areas. This led to a shortage of high value goods in the village formal markets. Border villages have responded to this restriction by trading informally across the border in order to obtain the said goods.

Malawi's land locked nature necessitates large transport costs for exports across the neighboring countries to the nearest sea ports. The high cost of road transport makes directly imported manufactured goods, or bulky commodities costly. Because Malawi is landlocked, its trade routes are easily vulnerable to crises, political or otherwise, in the neighboring countries (Braun et al 1991). Therefore, existence of political tensions at any time between countries may reduce formal trade to significant levels. Under such circumstances, individuals will try as much as they can to circumvent the problem by trading informally, or even illegally.

For example, the tense political relations with Tanzania until the 1994 election contributed to low level of trade between the two countries. In 1994, using the official exchange rate of MK 8.74 to the US dollar, the value of official trade between Malawi and Tanzania was MK 12 million (US $ 1.4 million). This was less than a tenth of the total trade valued at MK 165m (US$ 18.9m) for all the three neighboring countries (Mozambique, Zambia and Tanzania). Exports between the two countries were also the lowest, valued at MK 15.5 (US$ 1.8m) out of the total MK 82.4m or US$ 9.4 (National Statistics Office, 1996). Despite the low value of official trade flows, the nationals of the two countries were able to intuitively identify the comparative advantage between the two countries, and engage in informal cross-border trading. Although the two countries now have good relations, it will take time to build the necessary institutional structures and confidence within the formal trading community.

There are several initiatives being pursued by the Ministry of Trade and Industry aimed at increasing the trade flows and creating a conducive environment for traders. Malawi is also a contracting member of the United Nations Conference on Trade and Development (UNCTAD), the General Agreement on Tariffs and Trade (GATT), and the Lome Convention. In addition, in eastern and southern Africa, Malawi has bilateral trade agreements and protocols with several countries, including Zimbabwe, Zambia, South Africa and Mozambique and is also a member of the Preferential Trade Area (PTA) and the Southern Africa Development Community (SADC). These agreements allow Malawi to benefit from the preferential trade provisions and concessions. These initiatives not withstanding, Malawi's trade potential remains under exploited, and the informal cross-border trade is seen as a useful instrument for overcoming the constraints entrenched in its formal trade.

Box 1. Procedures for Obtaining Import and Export Licenses

An application for an Import License (Form T.I.3), or an Application for a License to Export should be completed in triplicate. The information sought on these forms include the names of and address of the importer or exporter, the name and address of the supplier or consignee, and the names of goods together with their quantities and values (Malawi Investment Promotion Agency, 1994).

The application forms are submitted to the Ministry of Trade and Industry. The latter occasionally consults with other agencies on importation and exportation of some types of goods. For example, on importation of chemicals such as dieldrin and aldrin and items such as live fish, the Ministry consults with the Ministry of Health and the Department of Fisheries, respectively. Similarly, on exportation of a number of agricultural commodities, especially staples, ADMARC (which is the country's main custodian of foodstuffs) is consulted. Licensing of special imports such as firearms, wild animals, and live poultry is delegated to the professional agencies, in this case, the Police and Veterinary departments, respectively. Similarly, the licensing of tobacco and tea exports is done through the respective officers of the Tobacco Control Commission and the Tea Association of Malawi. The processing of applications is generally completed within two weeks.

Box 2. Procedures for Transactions Involving Foreign Exchange

Commercial Banks have the authority to approve transactions such as the import of raw materials or machinery and equipment or spare parts that must be paid for in hard currency. Payment authority resides with the Reserve Bank, but the final transaction is made by the purchaser's commercial bank. Payments to overseas suppliers depend on the foreign exchange reserves held by each individual commercial bank. Approval of a transaction requires that the applicant provides a pro-forma invoice (five copies) for the goods or items required. When approval is accepted by the applicant's bank, clearance is requested from the Reserve Bank on Exchange Control Form EC. For shipments with value in excess of $5,000 a Societe Generale de Surveillance (SGS) of Malawi/IDA Inspection Order Form (five copies) must be completed by the applicant and company applying for the clearance request. Apreshipment inspection number is then assigned by the Reserve Bank, and documentation is sent to the SGS office in Malawi for transmittal to the SGS office in the country of origin. Form EC is stamped and returned to the applicant bank.

On importation, the bank forwards the SGS clean report of findings, the commercial invoice, the Bill of Entry, a completed Exchange Control Form E, and the previously stamped Form EC to the Reserve Bank for payment approval. Approval and subsequent payment may take about a month, but may be influenced by the availability of foreign exchange within the applicant's commercial bank.

Pre-and post-shipment export credit and insurance is operated by the commercial banks, together with FINCOM and INDEBANK, and refinanced by the Reserve Bank of Malawi under the Export Development Finance scheme. Participation is limited to companies with capital investment of up to MK 0.5 million, employment of not less than 100, and turnover of not less than MK 1 million. The minimum shipment covered under the scheme is MK 5,000. Applications for both types of coverage are made following receipt of an order for which additional short-term working capital funding is needed.

AGRICULTURAL SECTOR POLICIES, TRADE AND FOOD SECURITY

Trade and food security policies are inextricably bound together in an economy such as Malawi's that is heavily dependent on agriculture. Up to the early 1990s, Malawi was a classical example of a dual-sector agricultural strategy, with separate marketing and support systems for smallholder and estate sectors (CODA and Partners, 1994). The estate sector had access to private marketing channels for inputs and outputs, and financed most of its research through specialist research institutions. On the other hand, smallholders comprising over 70% of the population, except for those producing fruits and vegetables, had to market their produce through a parastatal - Agricultural Development and Marketing Corporation (ADMARC). This corporation operated through a large network of permanent and seasonal depots throughout the country. The Agricultural Development and Marketing Corporation also held the monopoly on fertilizer supply to smallholder farmers. Without a competitor, ADMARC became inefficient in a number of ways resulting in low returns to producers. This situation continued until the mid-1980s when deliberate agricultural marketing reforms were made, private sector agricultural marketing encouraged, and ADMARC relegated to the role of buyer and seller of last resort.

Traditionally, exports were restricted to a narrow range of commodities, mainly tobacco, tea and sugar. These three crops were traditionally grown by estates, composed of large scale farmers or companies. Official policy barred the majority of the smallholder population from producing and trading in these crops. This may explain the involvement of farmers in informal trading in food staples and other commodities that had a ready market across the borders.

The value of formal trade between Malawi and her neighbors is relatively low. Manufactured commodities make up the bulk of commodities traded and recorded in the national statistics. Formal trade in agricultural products such as maize, groundnuts and vegetables is virtually non-existent (Economic Survey, 1996). The

requirements necessary for formal trade such as investment capital, licensing, processing and marketing technology, and the perishable nature of the tradable commodities themselves, are some of the constraints limiting participation in the formal trade by a large number of participants. As a result, traders have circumvented these constraints by trading informally. "Illegal trade", "underground trade", "unrecorded trade" and "unregistered trade" are among the terms used by government officials and in literature to describe the informal cross-border trade (ICBT) being witnessed at various border towns.

Despite the intuitively ascribed volume, value and contribution of ICBT to local and national economies and its apparent prolific nature, no attempts have been made so far to document and estimate its magnitude in Malawi. Because they lack a proper understanding of the magnitude of this trade, governments in the subregion continue to under-estimate its contribution to the national economy and, in particular, to food security. The potential contribution of cross-border agricultural trade to food security (in spite of this underestimation) is significant in meeting seasonal food deficits. This is particularly true in instances where differences of harvesting seasons in neighboring border countries provide opportunities for seasonal trade in foodstuffs.

In Malawi's case, the role of cross-border trade, and its contribution to food security becomes an important policy issue because of the country's position as a chronically food deficit country. Despite maize being the main staple food, the annual maize deficit is estimated at between 250,000 and 500,000 tons (World Bank, 1996c). In addition, recent studies have indicated that despite 1995 being a normal year, the average rural Malawi household produced only 26% of its annual food requirement in that year (World Bank, 1996c). This is a precarious food security situation for the country. Cross-border trade can contribute significantly towards local food security by making food available where it is needed, at the right time, and most importantly, at affordable prices.

PURPOSE AND OBJECTIVES OF THE STUDY

Purpose

This study was part of a series of studies commissioned by USAID/REDSO/ESA and administered by TechnoServe Inc. (Nairobi) to investigate and record informal cross-border trade in eastern and southern Africa. The Agricultural Policy Research Unit (APRU) at Bunda College of Agriculture, University of Malawi, was contracted to conduct the Malawi country study. The study was conducted in an attempt to describe the nature and type of commodities traded, and the quantities involved. The study's results would allow the estimation of the net benefits to be gained from trade liberalization, and the calculation of the potential for increasing formal trade flows. The results would also provide useful information to national and regional trade policy formulation.

Objectives

The specific objectives of the study were to:

- provide estimates of the magnitude of unrecorded trade, highlighting the most important commodities (and categories of commodities) being traded, and the trade patterns;
- provide an overall analysis of how the informal traders overcome the major constraints facing formal traders such as mutually acceptable exchange rates, transportation, information and financing;
- give a comparative analysis of recorded and unrecorded trade volumes, highlighting the factors determining the disparity between the two;
- provide an overall assessment of the impact of the informal cross-border trade on the national food security; and
- make recommendations on steps which should be taken to enhance trade between Malawi and her neighbors.

2. Methodology and Description of the Monitored Sites

INTRODUCTION

The methodology used in monitoring the informal cross-border trade in Malawi closely followed the "Methodology for Estimating Informal Cross-border Trade in Eastern and Southern Africa" by Ackello-Ogutu (1995). The study sought to estimate the annual volume and value of trade that did not go into the official records during the monitoring period. The official and unofficial cross-border trade was concentrated in and around established towns and customs points along the borders. The unofficial routes were usually around these locations rather than in the more remote frontier regions. The border trade monitoring was therefore concentrated around the known crossing points, a list of which is provided in Table 1.

The selection of the routes to be monitored was initially based on local knowledge of the intensity of informal trade. Other practical issues considered during site selection included communication and transport links, availability of supporting institutions and suitable personnel. After about four months of monitoring all of the twenty nine provisional informal trading routes, ten routes were selected for the study's purposes. There were two sites in each of the four districts of Karonga, Mchinji, Dedza, and Mulanje; and one each in Ntcheu and Mwanza districts. The criteria for choosing the ten study routes included each route's ranking in terms of the volume of trade passing through and the value of trade per monitoring month. In instances where the routes were equally ranked, especially in terms of the value of trade, priority was given to those routes that had a greater volume of agricultural commodities because of the latter's contribution to food security.

DESCRIPTION OF THE MONITORED BORDER SITES

Karonga Border (Malawi-Tanzania Border)

Karonga district borders Tanzania and the people living in this district share a similar culture and language with their cross-border neighbors. Although River Songwe river provides a natural barrier, crossing points were established by informal traders along the river to by-pass the official customs points. The informal cross-border trade was substantial, with Tanzanian traders taking the lead. The trade was supported by informal money markets that provided the means for currency exchange. The informal trade routes avoided the official Malawi and Tanzania customs points at Songwe; the two customs points are only 100 meters apart.

Mchinji Border (Malawi-Zambia Border)

Mchinji district bordering Zambia lacks natural barriers such as rivers and hilly ground, and is instead flat and suitable for bicycle and vehicle transport. As is the case with Karonga district, the people of both sides of the border share a similar language and culture. A paved road linking the two countries supported easy movement of goods. The informal trade involved the sale of Malawian agricultural produce such as maize and potatoes as well as soft drinks. As most of the trade was in Malawian goods, trade transactions were made in Malawian Kwacha, and were also supported by effective informal money markets.

Because the Mchinji customs point was deep inside Malawi, it was difficult for customs officials to tax businesses operating beyond it towards the Zambian border. Zambian wholesalers sometimes took advantage of this situation to purchase goods from their Malawian counterparts. The latter would claim the goods were for Malawian customers, thereby avoiding tax. The existence of an agreement between

Table 1. Borders and Sites Monitored in Malawi

Border	Town in Malawi	Monitoring sites
Tanzania	Karonga	Songwe Nyasa* Januwale* Pusi Mayovya
Zambia	Mchinji	Custom Point Mwenda* Mwami Kachebere Tikoliwe*
Mozambique	Dedza	Custom Point Njati* Oilcom* Mtengowagwa, Mphathi Kadaumbwandire
	Ntcheu	Tsangano Biriwiri Kambironjo Mulangeni Mapira Lizulu*
	Mwanza	Thambani I Msembedza (Thambani II)* Makanani Pfupa Custom Point
	Mulanje	Muloza* Namunda*

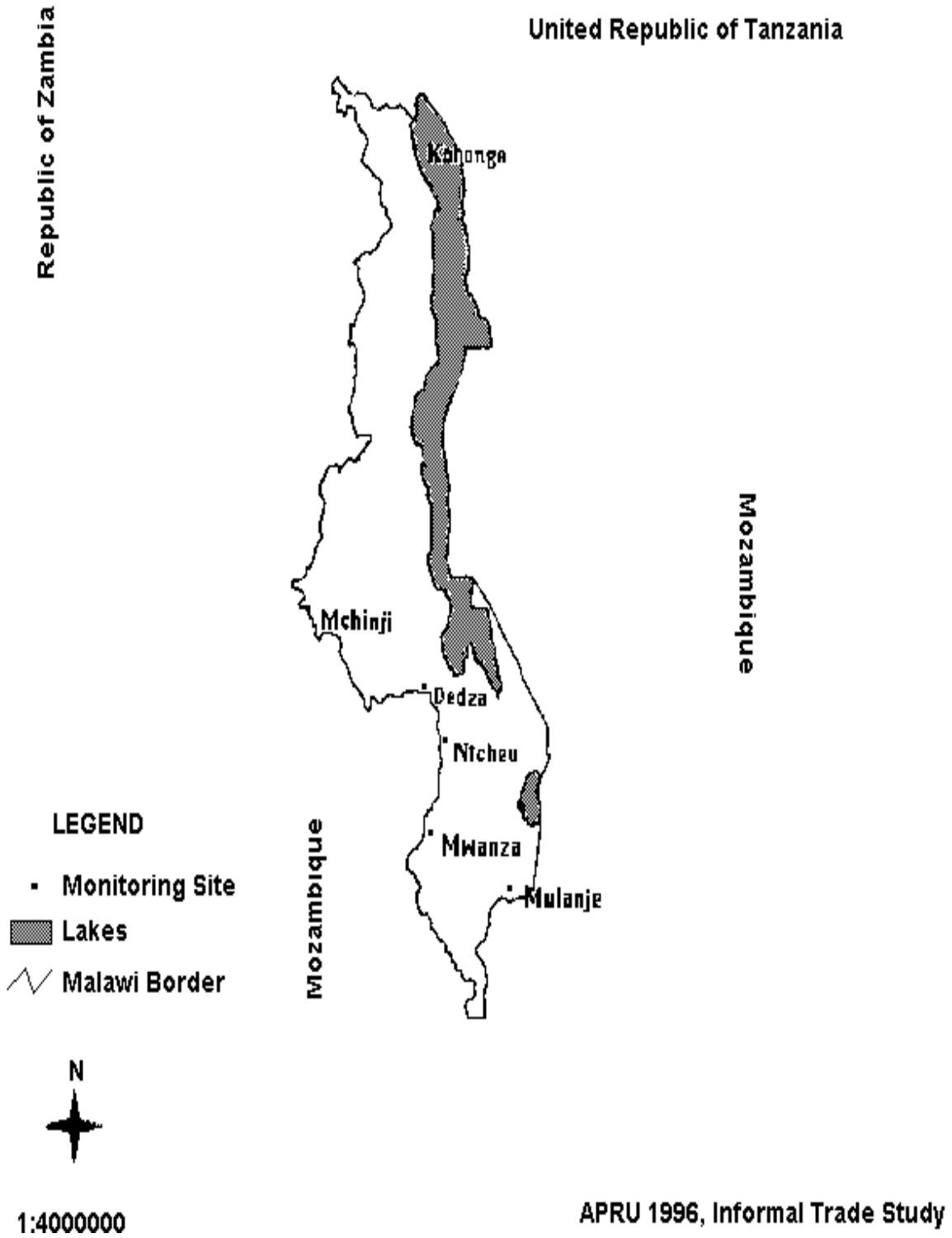
Those marked with an asterisk(*) were the ten sites finally selected for monitoring for the rest of the 12 months.

Malawi and Zambia allowing duty free transport of goods between Mchinji (Malawi) and Sindamisale (Zambia) was also used by traders to avoid paying duty through false declarations.

Dedza District (Western Malawi-Mozambique Border)

Dedza district is one of the three districts that border Mozambique on Malawi's western border. The border lacks natural barriers making it accessible to vehicles.

Figure 1. Malawi: Location of Informal Cross-Border Monitoring Districts



There is a common language (Nyanja) across the border and strong links exist between the locals and refugees arising from Mozambique's long civil war. The border area also shares with Mozambique the same agro-climatic conditions and agricultural production seasons.

As Mozambique has plenty of land, in contrast to land-scarce Malawi, many Malawians used their cultural links to acquire cultivation rights on the other side. The Mozambique side produces potatoes, maize, beans, vegetables (tomatoes, cabbages, and onions), and fruits, which were the main commodities traded in the region. The remoteness of this part of Mozambique (Angonia province) made Dedza not only the most convenient point for trade with Malawi, but also a means of linking the western parts of Mozambique such as Tete with the eastern towns such as Beira.

Ntcheu Border (Western Malawi-Mozambique Border)

Ntcheu is the second of the three districts that border Mozambique on Malawi's western boundaries that were monitored in the study. It has similar physical features to those found in Dedza. The main traded commodities were Irish potatoes, maize and beans.

It is also along this border that large frontier markets such as Lizulu are situated. Other than being an informal cross-border trade route, Lizulu also served as a market during certain days of the week. A stock-taking approach was used in estimating the volume of cross-border trade around this border area.

Mwanza Border (South-West Malawi-Mozambique Border)

Mwanza District is the last of the districts that border Mozambique on Malawi's western border that were monitored in this study. Unlike Dedza and Ntcheu, it is hilly, with most areas not being easily accessible by vehicles or bicycles. Because of its terrain, most of the goods traded were transported by portage (mainly women and children), and the flows of fruits and maize were relatively small. The nearest Mozambican town was Zobwe, where all the trade routes monitored in this area converged.

Mulanje Border (South-East Malawi-Mozambique Border)

Mulanje is the fourth district covered in the study that border with Mozambique. Unlike the previous three districts, Mulanje is situated on Malawi's eastern border with Mozambique. Mulanje is a densely populated tea growing district. The adjacent Mozambican areas are characterized by limited infrastructure and amenities and therefore depend substantially on Malawi for supplies of groceries and markets for farm produce, and health facilities. As in the previous cases, Mulanje and their neighbors in adjacent Mozambican areas share a similar culture and ethnicity (Lomwe). The area is mountainous and has several rivers including the Ruo River that necessitate the use of canoes in cross-border trading.

The eastern border at Mulanje was one of the busiest trade routes for informal cross-border trade in agricultural produce. The Muloza road route connecting Mulanje Boma in Malawi to Milanje town in Mozambique was used by traders for bicycle and portage transportation. On this route, the flow of trade was mainly agricultural produce from Mozambique to Malawi, and groceries and clothes from Malawi to Mozambique. The traders crossed the Ruo River by canoe by paying MK 0.45 at Namunda. From this point maize, beans, and pigeon peas were moved along a well maintained road to Mulanje Boma, 23 km away. On the Mozambican side, the river crossing connected Malawian traders to smaller markets that operated every Saturday.

DATA COLLECTION

Each of the selected trade routes was surveyed for a period of 12 months. The monitoring of cross-border trade began in April, 1995 at Karonga district; May, 1995 for Mchinji, Dedza, Ntcheu, and Mwanza districts; and August, 1995 for the Mulanje district. Each site was monitored for 12 consecutive months.

Each monitoring month was divided into four quarters (weeks). Two quarters were randomly selected from each of the 12 months provided that each

Table 2. Time Chart for Monitoring Informal Cross-Border Trade in Malawi

Year	Calendar of Month	Monitoring Weeks
1995	April	1 and 4
	May	2 and 3
	June	1 and 4
	July	2 and 3
	August	2 and 4
	September	2 and 3
	October	1 and 4
	November	1 and 3
	December	1 and 4
1996	January	2 and 3
	February	1 and 4
	March	2 and 3

quarter was sampled six times. This procedure made it possible to reconstitute a typical month and enabled the evaluation of trade variability within a month. Other than minimizing costs and for purposes of randomization, the random sampling of the quarters was also meant to avoid creating a potentially suspicious situation between enumerators and those being observed as would be the case if monitoring was done continuously in a month. The following chart applied in the case of cross-border trade monitoring at Karonga site where monitoring began in April 1995.

The two main sources of primary data were: data from the weekly observation (monitoring including data from open frontier markets), and baseline survey data. For the purpose of uniformity, the same types of data were gathered for all the ICBT surveys in the countries participating in the study in the eastern and southern Africa.

The monitoring data (from weekly observation) collection covered the composition of the goods, quantity or volume of the goods, commodity prices, direction of trade, modes of transport, packaging of the goods, and the popularly used units of measure.

Date From Border Observation

The route monitors and the site supervisors were trained for a week to familiarize them with weights and measures, and with the most frequently traded commodities. This was important, in order to distinguish between different weights for different commodities that standardized containers with the same volume could hold. This training allowed the research team to iron out some of the measurement errors noted during the pre-testing period. The teams were thereafter able to estimate relatively accurately the weight of potatoes in a bag that would be normally used to carry 90 kg of maize.

A typical monitoring day began at six in the morning and ended at six in the evening. Night monitoring was not done because of safety considerations. Data were collected through observation, although monitors would at times stop the traders to ask or physically check the consignment. It should be clarified that traders' cooperation was optional; no coercion was used in obtaining responses to questions or requests by the monitors.

There was considerable suspicion about the monitors in the first two months of the survey because they were mistaken for either policemen, or customs personnel. To avoid this, the monitors were advised to maintain a minimal level of contact and identification with the police and customs personnel in order to win the confidence of the traders. As their *bona fide* identities became established, the monitors were able to

achieve this objective this confidence, a matter that was further assisted by the decision to retain the same monitors on the same routes throughout the period of the survey. Because the traders tended to work along fixed routes, fixing the monitors allowed a rapport to develop between them thereby facilitating collection of valid and accurate information.

Data From Frontier Markets

A stock-taking approach was used to collect data at open frontier markets which serve as informal trading routes between Malawi and Mozambique. Lizulu in Ntcheu district is one such market. This market is located right on the boundary of Malawi (Ntcheu) and Mozambique that is marked by the M1 Road from Blantyre to Lilongwe. Lizulu served both as an informal trade route and as a market during certain days of the week. On the market days (Wednesdays and Saturdays), two monitors were assigned to take an inventory of the major commodities being traded. The monitors would divide the market into four sections. When farmers brought their produce to big traders for wholesale purposes, the monitors recorded such volumes immediately, particularly in instances when the monitor was convinced that the product would not be sold on the same day. This volume was then noted separately, and added to the volume traded for that day.

Each monitor was responsible for surveying two sections of the market. Beginning at about seven in the morning when the market was usually full with commodities, each monitor would take the inventory of the major commodities. The same procedure was repeated late in the afternoon when the market was about to close. The difference between morning and afternoon counts for each commodity was regarded as total volume traded for the day. During the study, such an approach was used for surveying all the relatively large frontier markets that also served as informal trading routes.

At Lizulu market, the problem of distinguishing imports from exports was largely eased by the distinct characteristics of the produce and traders. Over 80% of the agricultural produce was of Mozambican origin, while 85% of the buyers were Malawian. During the survey, it was learned that most of the Malawian traders selling agricultural produce had themselves initially bought it from Mozambique. Distinguishing between exports and imports was further made easier by the fact that the Mozambican traders sold their produce on their side of the road, as did the Malawians. Further, Mozambicans typically bought groceries and petroleum from the Malawian side. These products were quite easy to distinguish from the predominantly agricultural goods originating from Mozambique.

Baseline Data

A baseline survey was conducted along the border areas where the study was carried out. Interviews were conducted with the key persons along the border regions, and organizations involved in the regulation and promotion of trade. Among the public officers interviewed at each border monitoring site were the District Commissioner, Trade Officer, and the customs personnel. Also interviewed were key persons from the following organizations and government ministries: Malawi Export Promotion Council, Malawi Chambers of Commerce, Malawi Investment Promotion Council, Ministries of Commerce and Industry, Economic Planning and Development, and Department of Customs and Excise. The formal traders interviewed included registered wholesalers, and retailers. The informal traders comprised hawkers, retailers, smugglers, and some wholesalers exporting or importing without licenses.

The baseline survey was germane not only in structuring the study, but also in complementing the primary data gathered by monitors stationed at various informal trade routes. It was structured to capture information that was not covered by the field monitors. Information on the sources of foreign exchange, the sources of information on the current exchange rates, the sources of trader finance, and the strategies used by informal traders to overcome barriers faced by formal traders, was solicited from the key informants. Similarly, the government officials' perspective on informal trade, and perceptions of this trade by the informal trade participants themselves and local people, were also collected during the baseline survey. At the same time, information on mode of transport used by informal traders and origin and final destination of the

goods traded was captured by both the baseline survey and the field monitoring activities.

Other information generated by the baseline survey included trader characteristics (including gender, and commodity specialization), sources of information and mode of communicating it, wholesale and retail (consumer) prices, methods of settling payments, grading of the commodities, and forms of storage used by the traders.

DATA MANAGEMENT AND ANALYSIS

The quantification of trade in terms of volume and value was done using monthly data from the observations carried out in the monitoring sites. As a monitoring period constituted 14 days, the estimated total volume of trade was computed using the formula:

$$Y=[X/14)*30]$$

where Y represents the total volume of trade in a month of 30 days, and

X represents the total volume of trade in 14 days.

Table 3. Classification of Commodities into Agricultural and Non-Agricultural Goods

AGRICULTURAL GOODS	NON-AGRICULTURAL GOODS[1]
Maize	Carlsberg beer
Maize flour	Powers # 1
Beans	Soft drinks
Pigeon peas	Orange squash
Groundnuts	Soaps
Irish potatoes	New clothes
Cassava	Zitenge clothes
Cabbage	Second-hand clothes
Tomatoes	Bicycles and parts
Dried fish	Locomotive oils
"Usipa" fish	Sugar
Fertilizer[2]	Electrical appliances
Napolo (opaque beer)	Matches
Hides and skins	Leather goods
Livestock	Kitchen hard ware
Bananas	
Sweet potatoes	

[1] *Elsewhere in this report, non-agricultural goods are referred to as industrial goods.*

[2] *Following our classification, fertilizer should have been under non-agricultural goods. It has been included in this column because of its importance in maize production, which is a major staple food for Malawi and her neighbors.*

Box 3. Site Monitoring Case Study: Mr. Oden Mwakyusa — Bicycle Transporter Across Songwe River

Our research team operating along the Malawi/Tanzania border interviewed a bicycle transporter named Mr. Mwakyusa, a Tanzanian aged 25 years. Mr. Mwakyusa and his colleagues operated from a site called Januwale on the Malawi side of the border about a kilometer from the Malawi customs check point. Residents along both sides of the border speak the same language.

Goods from Malawi, for example, sugar, carlsberg beer and power # 1 would be offloaded at Januwale. In order to evade taxes and cumbersome customs procedures, the owners of the goods would begin to negotiate with transporters (including Mr. Mwakyusa) on how best to transport their goods across the border through River Songwe. The transporters normally used canoes to carry the merchandise, including their bicycles, across the river. The owners of the goods(traders) and transporters did not usually travel together. After landing on the other side of the river, for example at a place called Ikamba, the transporters would use their bicycles to transfer the goods to places agreed upon with the owners of the goods, usually not far away from the landing point. From here the traders would use trucks to transport the goods to Mbeya or beyond. The average fee charged by the transporter per trip was Tshs 800 (about US$ 1.3 or MK 20). The charges for the canoe were separate and averaged Tshs 200 per bale of sugar or its equivalent (20 Kg). Because the transporters and canoe operators work in harmony, the former sail free of charge.

Transporters made up to five trips per day in peak periods. Mr. Mwakyusa observed that business was low compared to the early 1990s. He estimated that he made about TShs 10,000 per month after deducting costs of food and other minor expenses. Unfortunately, there were no back hauls from the Tanzanian side. This was because, there were other transporters with their bicycles on the Tanzanian side who would be awaiting goods to transport to Malawi. There was a common understanding and mutual respect that one should transport goods in only one direction. They would queue to ensure that each one of them got a turn before any one goes for a second trip. The transport charges were the same suggesting that collusion existed.

Mr. Mwakyusa mentioned that at times he would be ambushed by customs officials or police on his way to the river bank. If this happened, he would go to look for the owner to negotiate with the official. Mr. Mwakyusa would not participate in the deal between the trader and the official.

This case demonstrates a high degree of organization, cooperation, mutual trust and collusion among transporters and between traders and public officials. New entrants are viewed with extreme suspicion.

The annual volume of trade was estimated by totaling the monthly figures. The value of trade for each month was estimated by the product of the monthly quantity, and the average price per unit of the commodity. The analysis made a distinction between agricultural and non-agricultural goods.

Agricultural goods were traded in their raw form immediately after harvest without undergoing major processing, sorting, and grading. Non-agricultural goods, including those from plant and animal origin, were traded after undergoing a considerable amount of processing, usually at a large scale manufacturing plant. Such goods are less perishable and have a longer shelf life (Table 3).

SPECIFIC PROBLEMS AND EXPERIENCES OF THE FIELD SURVEY

Several problems were encountered and useful lessons gained from the field survey that could have a significant bearing on the research methodology and its application in similar studies in future.

One of the problems encountered was that some of the sites initially identified as being significant in terms of informal cross-border trade turned out to be inconsequential. In future studies, it is proposed that sufficient time be spent on reconnaissance so as to

verify the importance of promising sites before fully deploying the monitors.

Logistical difficulties made the collection of some of the needed data difficult. For example, it was difficult to estimate the proportion of the informal cross-border trade that passed through the official customs points as either mis-declarations or mis-specifications. It was also difficult to monitor trade during the night because of the potential dangers posed to the monitors, despite the knowledge that such trade included commodities of interest such as food aid being illegally traded.

Cooperation from informal traders and transporters was extremely vital for meaningful monitoring of the trade activities. It was difficult to generate accurate and reliable data from merely observing the trade from a distance. A great deal of probing was required for the monitors to know and accurately record the types, quantities, prices of the goods traded and other important information related to informal cross-border activities. Box 3 depicts such information.

It was important for all the monitors and their supervisors to participate in the training of measures used by informal traders from the very beginning of the study. For example, what was the weight of potatoes carried in the bag normally used to contain 90 kgs of maize? Traders used similar bags for both maize and potatoes. The monitors and supervisors thus needed to understand, and standardize the types of containers, and their capacity for carrying differing weights for differing commodities. This was necessary to avoid over- and under-reporting errors in data collection.

It appeared that the 12 months survey period was rather long for the monitors and field supervisors used in this study and a lot of effort was necessary to maintain morale and efficiency in data collection.

3. Results of the Baseline Survey

MODES OF TRANSPORT

Several modes of transport such as vehicles, bicycles, portage, and canoes were used by informal traders depending on the type of commodity being transported, terrain and other conditions along the border. Natural boundaries such as the Songwe river at Karonga (Malawi-Tanzania border), and the Ruo river at Mulanje (Malawi-Mozambique) were crossed by canoes. In areas with good roads such as Mchinji and Karonga, a combination of vehicle to bicycle or vehicle to porter transport was used to avoid the customs points. Vehicle transport was usually a collective effort by several traders who would be dropped with their goods at secret drop off points near the customs station. From here, the goods would be carried across the border by either bicycle operators or porters.

Bicycles were the most frequently used mode of transport. Bicycle operators were organized along informal associations that settled disputes, determined new entrants into the business and colluded in setting the bicycle hire charges. The price charged for transporting the good depended on risks associated with the terrain and the possibility of the bicycles being impounded by customs officials or the police. For example, among the exporters, bicycle usage was 62% at Karonga (Malawi-Tanzania border), 82% at Mchinji (Malawi-Zambia border), and 78% at the Malawi-Mozambique border (Dedza, Ntcheu, and Mulanje). Use of vehicles was less common, ranging from a relatively high level of 41% among the importers at Karonga, to a much lower level of 15% for importers at Mchinji. Portage was insignificant at Karonga and Mchinji but important along the Mozambican border where it accounted for just over 20% of all cases. This was due to the poorly developed infrastructure and the low value of the agricultural commodities that made up the bulk of the trade with Mozambique.

OVERCOMING BARRIERS FACED BY FORMAL TRADERS

Formal trade within eastern and southern Africa is generally constrained by tariff and non-tariff barriers. Informal cross-border trade is a response to these barriers. Informal traders seeking to maximize their profit have devised ways of reducing costs arising from high tariffs and lengthy bureaucratic delays. The major drawback of formal trade is that the neighboring countries insist on denominating it in stable currencies such as the US dollar. Because hard currency was in the past strictly regulated by the central banks, this made business very difficult for the formal traders. Following the start of the liberalization process in the 1990s, the procedures are much easier, but acquiring foreign exchange still requires considerable paper work in Malawi.

The informal traders in contrast, conducted their transactions using the local currencies. The study found evidence that informal cross-border trade flourished in areas that had well established and well-supplied parallel money markets nearby. The presence of parallel money markets at the border made local currency exchanges convenient, removing the issue of currency as a constraint to cross-border trade. As an incentive, the exchange mechanisms for local currencies at the border parallel money markets were flexible, providing better room for negotiation and more favorable exchange rates than those in the banks. Therefore, the trade policies, and internal foreign exchange regimes still provide sufficient reasons for small traders to avoid formal trade transactions.

Although the money changers preferred dealing in local currencies because of the risks of fake foreign currencies, they would occasionally transact in US dollars and the British Sterling Pound. The exchange rate depended on the value and demand of the commodity in question. For example, the sugar trade be-

tween Malawi and Tanzania, and Malawi and Zambia, led to an increased demand for Malawian Kwacha. However, the traders were familiar with the prevailing dollar exchange rate, with truck drivers and the business community from major towns such as Chipata, Lilongwe and Blantyre supplying the necessary information to the parallel money markets.

Exchange regimes aside, formal trade is still constrained by the uncoordinated and often confusing cross-border trade tariff rates, and tedious and time consuming non-tariff practices such as licensing and registration procedures. Most of the small traders have limited time and capital, few connections to the bureaucracy, and limited knowledge of tariffs. Despite the risks involved in the informal trade, its capacity to by-pass all these formalities makes it highly attractive to all small traders, and hence its continued appeal.

GENDER IN INFORMAL CROSS-BORDER TRADE

Informal cross-border trade, like many activities in Africa, has a strong gender element, with women playing an important role. Several factors, some of which were cultural, played a role in the type of activities women undertook in cross-border trading. Transactions in some commodities were gender segregated with women playing a prominent role in the trading of firewood and agricultural produce such as vegetables. Some modes of transport were also gender segregated: for example, women did not typically ride bicycles and therefore were largely limited to portage.

At Karonga market, the export trade was wholly dominated by men, with women contributing only 4% of the traders. Men dominated in all the commodities with women better represented in vegetables, hardware, and second-hand clothes. At Mchinji, women hired men to avoid the customs check points and may thus have been under-counted, while along the Malawi-Mozambique border, women dominated in the firewood trade (64%), and were important in the vegetable trade. The greater presence of women along the Mozambique border was attributed to laxity in patrols by customs officials and easier physical access which reduced the women's need for hiring men as couriers. Indeed, the gender analysis was dogged by the problem of distinguishing between the owner of the commodities (trader), and the hired porter.

4. Estimates of the Unrecorded Cross-Border Trade

INTRODUCTION

This section presents estimates of the volume, value, and direction of informal cross-border trade between Malawi and her neighboring countries. Throughout this section, the presentation follows a specific format which is described below:

- Informal cross-border trade is presented separately for each border starting with Zambia/ Malawi, Mozambique/Malawi, and finally Tanzania/Malawi border.
- Commodities in all tables have been arranged in descending order of value.
- The quantities for liquid commodities such as beer and mineral waters, have been expressed in units of 1,000 liters each.
- "Total weight" for the commodities in various rows (for example maize grain, fish, beer, etc.) would not be meaningful, and is therefore excluded.

MALAWI/ZAMBIA INFORMAL TRADE

Agricultural Exports

Maize is the most important agricultural export commodity in terms of value (US $ 158,000), followed by maize flour, Irish potatoes, and beans (Table 4 ; Figure 2). Malawi was able to export maize flour because of the comparative advantage it has over Zambia in processing and storage facilities. In the first seven months of the survey, exports of maize flour far exceeded those of maize grain. This was because of a vacillating policy regime on maize grain marketing.

Maize exports to Zambia (Fig. 2) show a marked seasonality. Although most of the exports were likely to occur during the harvest months, there was evidence that some of these flows came from maize distributed as food aid, and re-exports of maize initially bought from Mozambique. Most of the maize grain was exported during the months of January to March, while maize flour was exported mainly in August and September. The export volume for Irish potatoes exports was highest in May and leveled off between June and October. Other crops showed less seasonality, with beans, fish, and Napolo beer, showing no marked seasonality.

The price trends also showed marked seasonality (Fig. 3), with maize prices doubling between August and December; the harvest is usually between April and June, which is the period that many farmers sell to the ADMARC and private traders. By September, these same farmers are buying back maize from the informal markets thus raising both domestic and export prices until about January when the planting season begins. The changes in the fertilizer and maize flour reflect policy changes (Fig. 3). For example, because input markets had been liberalized in early 1995, fertilizer prices in general fell significantly by a third from MK 6.0 per kg in May, 1995 to MK 4.0 in April, 1996. Maize flour prices doubled from MK 2.5 kg to MK 5.0 between May and August 1995, and did not fall below MK 4.8 per kg by April 1996.

The informal exports of domestically produced sugar from Malawi were mainly sold to Tanzania, with Zambia as a secondary market. While the sugar prices were highest at the Malawi-Tanzania border relative to the Malawi-Zambian border, factors influencing the seasonality of these prices (Fig. 4) were thought to include fluctuation in the domestic supply and changes in the domestic and cross-border demand for the commodity.

Table 4. Malawi/Zambia: Agricultural Goods Trade, May 1995 - April 1996

Exports			Imports		
Commodity	**Quantity (MT)**	**Value US$ 1,000**	**Commodity**	**Quantity (MT)**	**Value US$ 1,000**
Maize grain	1,140	158	Fertilizer	17,000	7,878
Maize flour	428	131			
I/Potatoes	220	131			
Beans	162	115			
Napolo beer	287	89			
Fish	84	68			
Others	40		Others		6
Total[1]		**732**	**Total**		**7,884**

[1]Others in the export group includes cabbage, tomatoes, etc.

Agricultural Imports

Fertilizer was the most important agricultural commodity informally imported from Zambia. The fertilizer imports had a marked seasonality, with the highest imports occurring during the period preceding the agricultural season that begins in October-November. During the study period, about US$ 7.8 million of fertilizer was imported. The policy changes in Malawi leading to the liberalization of the input markets in early 1995 played a role in this trade. The liberalization of the markets removed ADMARC's monopoly and brought in private trade into the markets. At the same time, the Malawian Kwacha was substantially devalued thus increasing the price of local fertilizers significantly. Because of the liberalized markets, private trade, and large supplies of relatively cheaper Zambian fertilizer, there were large flows of fertilizer from Zambia to Malawi at the Mchinji/Mwami border. Some of the issues raised concerning fertilizer imports from Zambia are of a moral hazard nature, dealing mainly with the quality of the fertilizers and protection of farmers from low quality imports.

Non-Agricultural Exports

Malawi's main export was sugar that accounted for over three quarters of the value of exports to Zambia, valued at US$ 1.96 million out a total export value of US$ 2.6 million during the period of the study (Table 5). The sugar exports were influenced by domestic factors such as sugar cane production, sales from the processing factories, an erratic policy regime, and external factors such as the sugar market in Zambia. The soft drinks valued at US$ 318,000 were the second most important export commodity. The demand for Malawian soft drinks was affected during the final six months of the monitoring period by the penetration of Zambian soft drinks into the Malawian market. The other commodities were new clothes, Carlsberg beer, diesel, liquor (Powers #1), and electrical goods.

Non-Agricultural Imports

Second-hand clothes formed the bulk of Malawi's imports from Zambia. Each month saw some trading in this commodity, with a sharp rise in the value traded being recorded in August 1995 (US$ 3 million). Im-

Fig. 2 Malawi/Zambia Informal Trade

Value of Food Exports

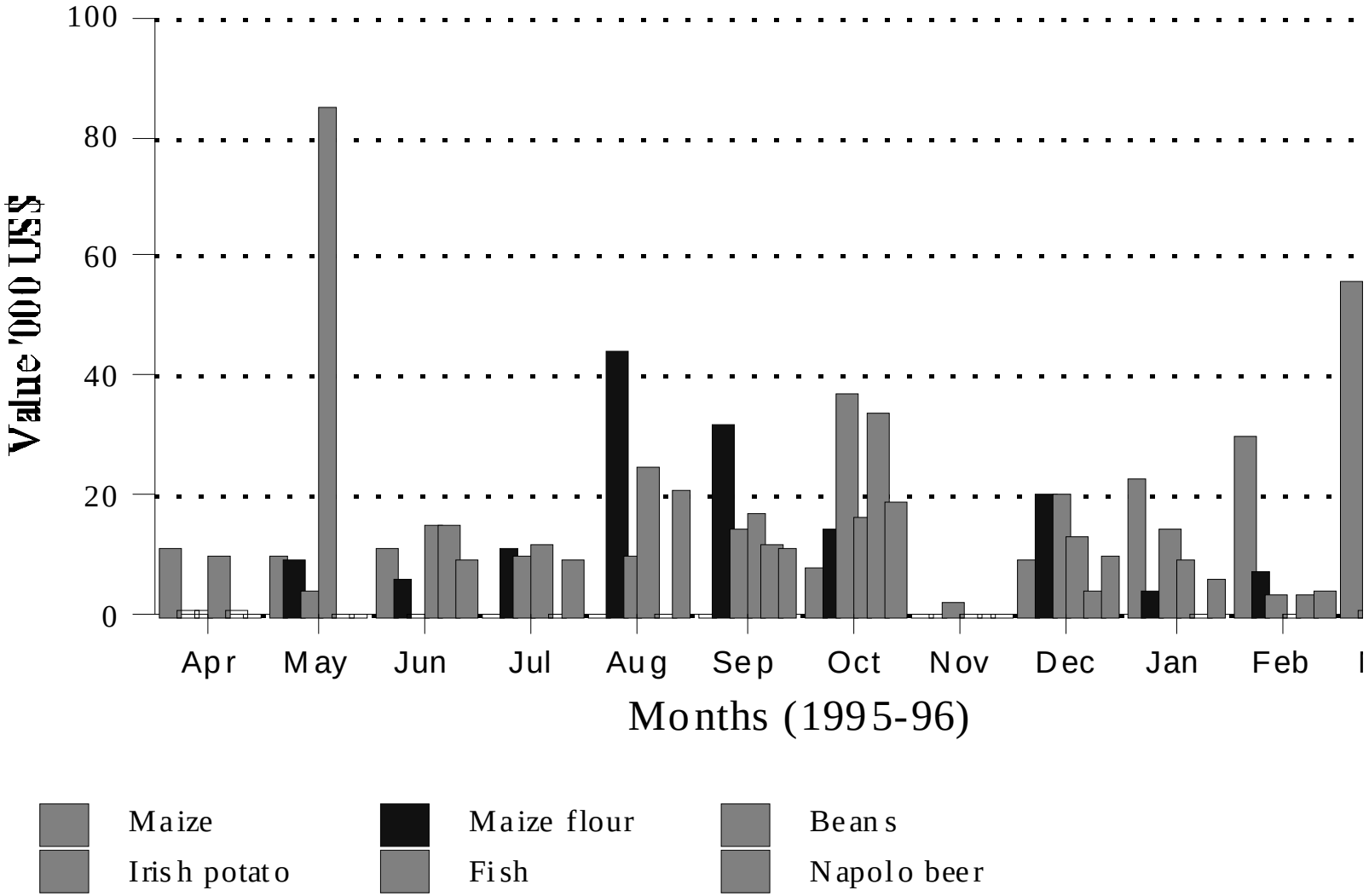


Fig.3 Price Trends for Selected Major Agric Exports and Fertilizer Imports from Zambia

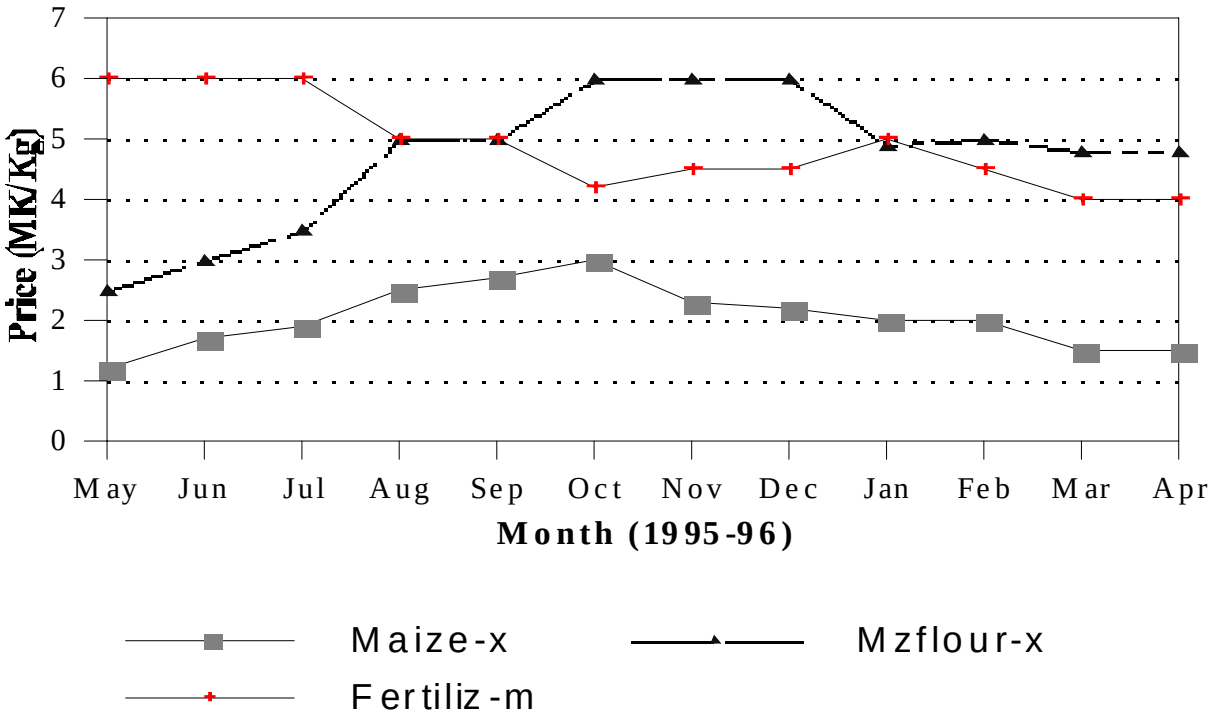


Fig.4 Price Trends for Informal Sugar Exports

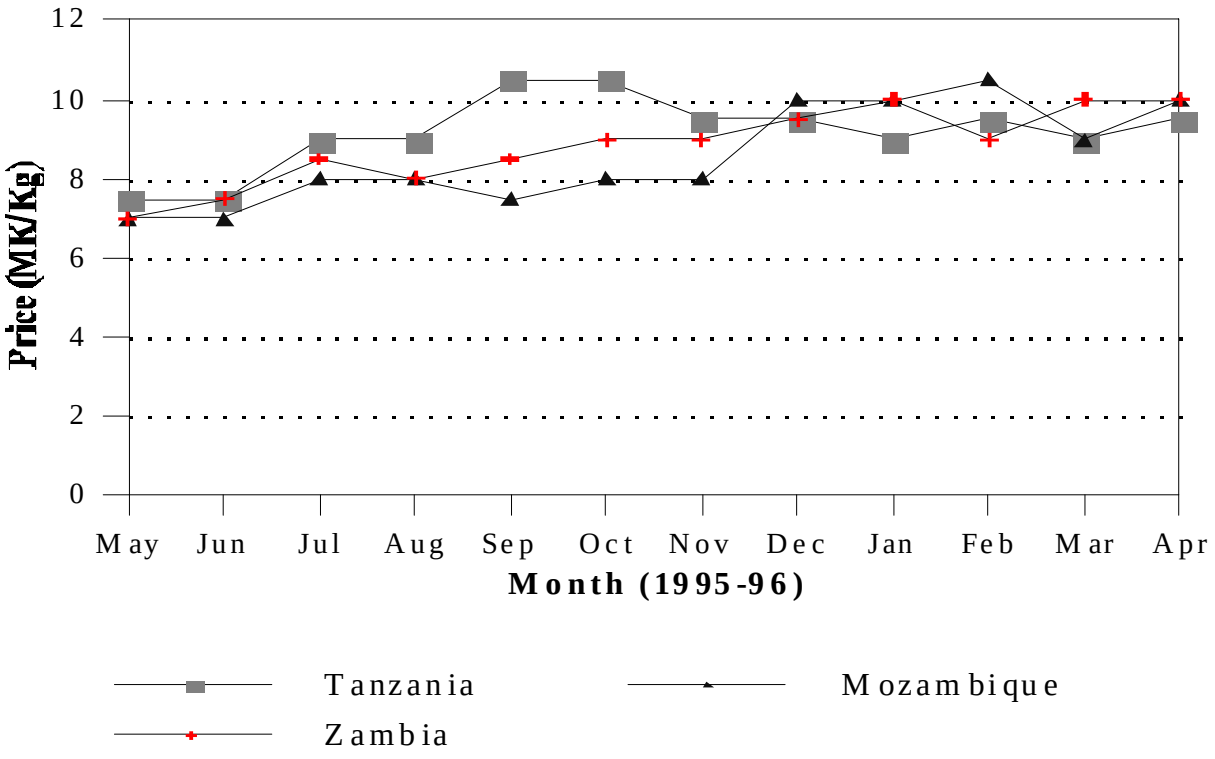


Table 5. Malawi/Zambia: Non-Agricultural Goods Trade, May 1995- April 1996

Exports			Imports	
Commodity	**Quantity (MT.)**	**Value (US $ 1,000)**	**Commodity**	**Value (US $ 1,000)**
Sugar	2319	1,960	SH clothes	8,785
Soft drinks	411	318	New clothes	514
[1]New clothes		79		
Powers# 1	10	68		
Diesel		73		
Carlsberg	29	43		
[2]Others		51	[3]Others	4
Total		**2,592**	**Total**	**9,303**

[1]New clothes include "Zitenge" clothing
[2]Others include; cigarettes, soda ash, bicycle spares, biscuits and electrical goods.
[3]Others include; metal plates and leather goods.

ports of new clothes, including "Zitenge", were valued at about half a million dollars (Table 5). Other imports of minor importance were bicycles, leather goods, batteries and livestock.

MALAWI/MOZAMBIQUE UNRECORDED TRADE

Agricultural Exports and Imports

Malawi's agricultural exports to Mozambique (Table 6) were largely fertilizer (US$ 354,000), maize (US$ 309,000) and potatoes (US$ 155,000), that accounted for 87% of the total value of all the agricultural exports (US$ 945,000). In return, Malawi imported agricultural produce valued at US$ 6.5 million from Mozambique. In virtually every agricultural commodity (except for fertilizers), Malawi imported more from Mozambique than it exported.

The most important commodities exported by Mozambique to Malawi were potatoes (US$ 1.9 million), and vegetables (US$ 1.9 million). Other commodities that were valued at half a million dollars or more were pigeon peas (US$ 560,000), beans (US$ 555,000) and cowpeas (US$ 522,000). The value of maize imports (US$ 484,000) from Mozambique was greater than that of exports (US$ 309,000), with imports of fertilizer providing Malawi with a tiny positive trade balance of US$ 45,000. It was clear that Malawi was an important market for Mozambique's food producers, and that informal trade provided food security gains for consumers on the Malawian side, and income gains for producers on the Mozambican side of the border.

Because of the length of the Malawi-Mozambique border, ethnic and cultural links, and reciprocity arrangements, it is necessary to qualify the figures in Table 6. While, on the balance, Malawi imported six and half times as much as it exported, it is worth noting that a substantial number of Malawians living along the border had access to land in Mozambique as a result of cultural reciprocity arrangements. It is therefore possible that some of the produce imported from Mozambique may have been cultivated by Malawians in the first place. At the same time, there was considerable bi-directional movement in some of the commodities because the communities moved freely across the border.

Table 6. Malawi/Mozambique: Agricultural Goods Trade Balance, May 1995-April, 1996

Exports			Imports		
Commodity	**Quantity (MT)**	**Value (US $ 1,000)**	**Commodity**	**Quantity (MT)**	**Value (US $ 1,000)**
Fertilizers	901	354	I/potatoes	3,604	1,912
Maize	2,687	309	Vegetables	3,497	1,858
I/potatoes	2,240	155	Pigeon peas	2,521	560
Fish	38	36	Beans	857	555
Beans	47	32	Cow peas	2,235	522
Groundnuts	26	8	Maize	4,093	484
Napolo		7	Fertilizers	771	309
Cabbage	15	5	Cassava and S/potatoes	231	62
Others[1]		39	Others[2]		239
Total		**945**	**Total**		**6,501**

[1] Others for exports include; bananas, cassava, livestock, cow peas and sweet potatoes.
[2] Others for imports include; livestock, fish, fuel wood and sugar-cane.

Table 7. Malawi/Mozambique: Non-Agricultural Trade Balance, May 1995-April, 1996

Exports			Imports		
Commodity	**Quantity (MT)**	**Value (US $ 1,000)**	**Commodity**	**Quantity (MT)**	**Value (US $ 1,000)**
Sugar	1,877	1,205	SH clothes		182
SH clothes		1,184	Salt		56
Cement	74	126	Bicycles		8
New clothes		108	New clothes		4
Bicycles and spares		97			
Soft drinks		42			
Carlsberg		37			
Soaps		19			
“Zitenge”		13			
Cooking oil		12			
Biscuits		8			
Others[1]		82	Others[2]		5
Total		**2,933**	**Total**		**255**

[1] Others include; sandals, leather goods, food containers, juice, powers #1, plastic shoes and diesel.
[2] Others include kitchen ware cassettes, soap, plastic shoes and cooking oil.

Fig.5 Malawi/Mozambique Informal Trade

Value of Major Agricultural Exports

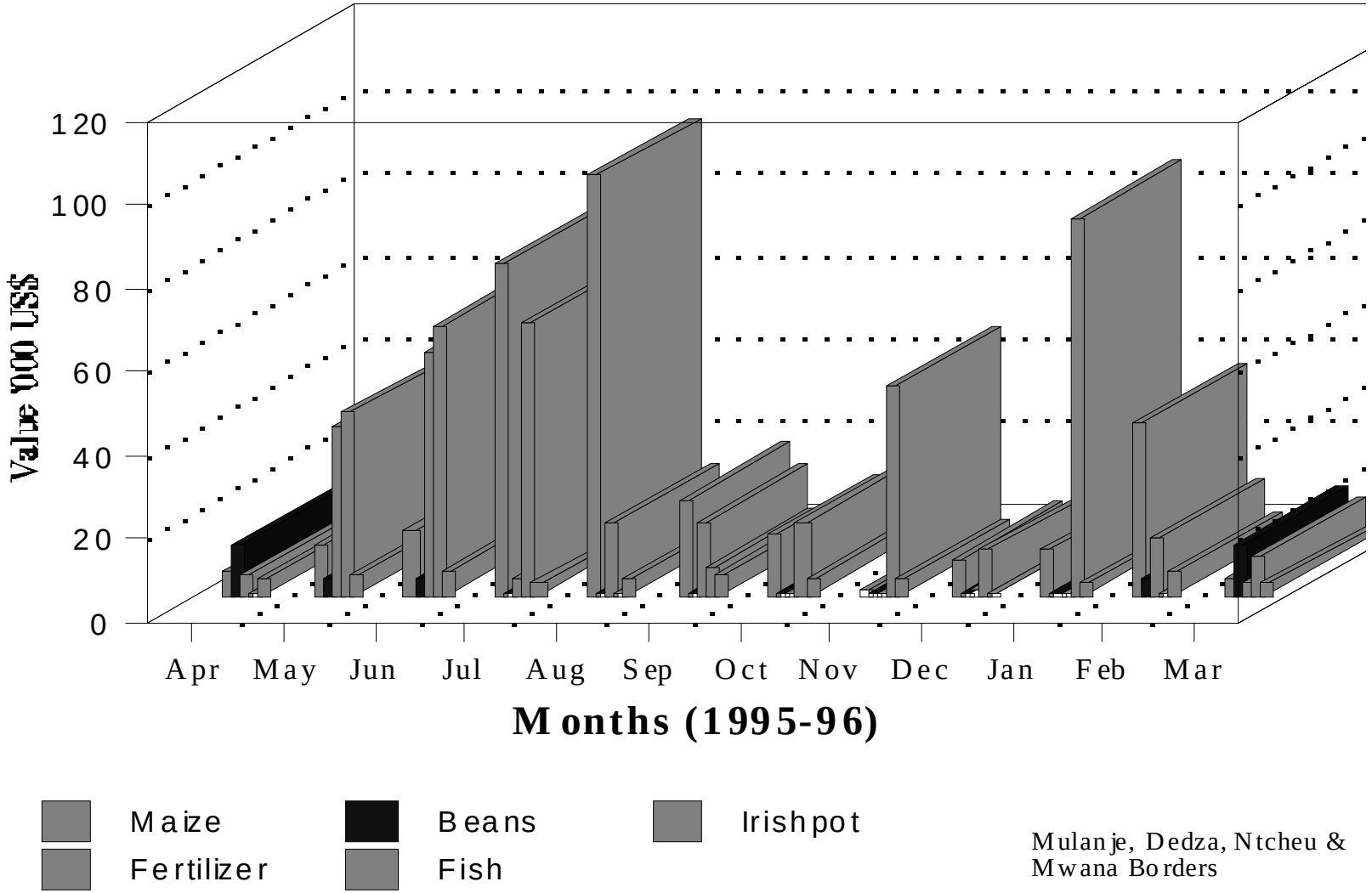


Fig.6 Malawi/Mozambique Informal Trade
Value of Major Agricultural Imports

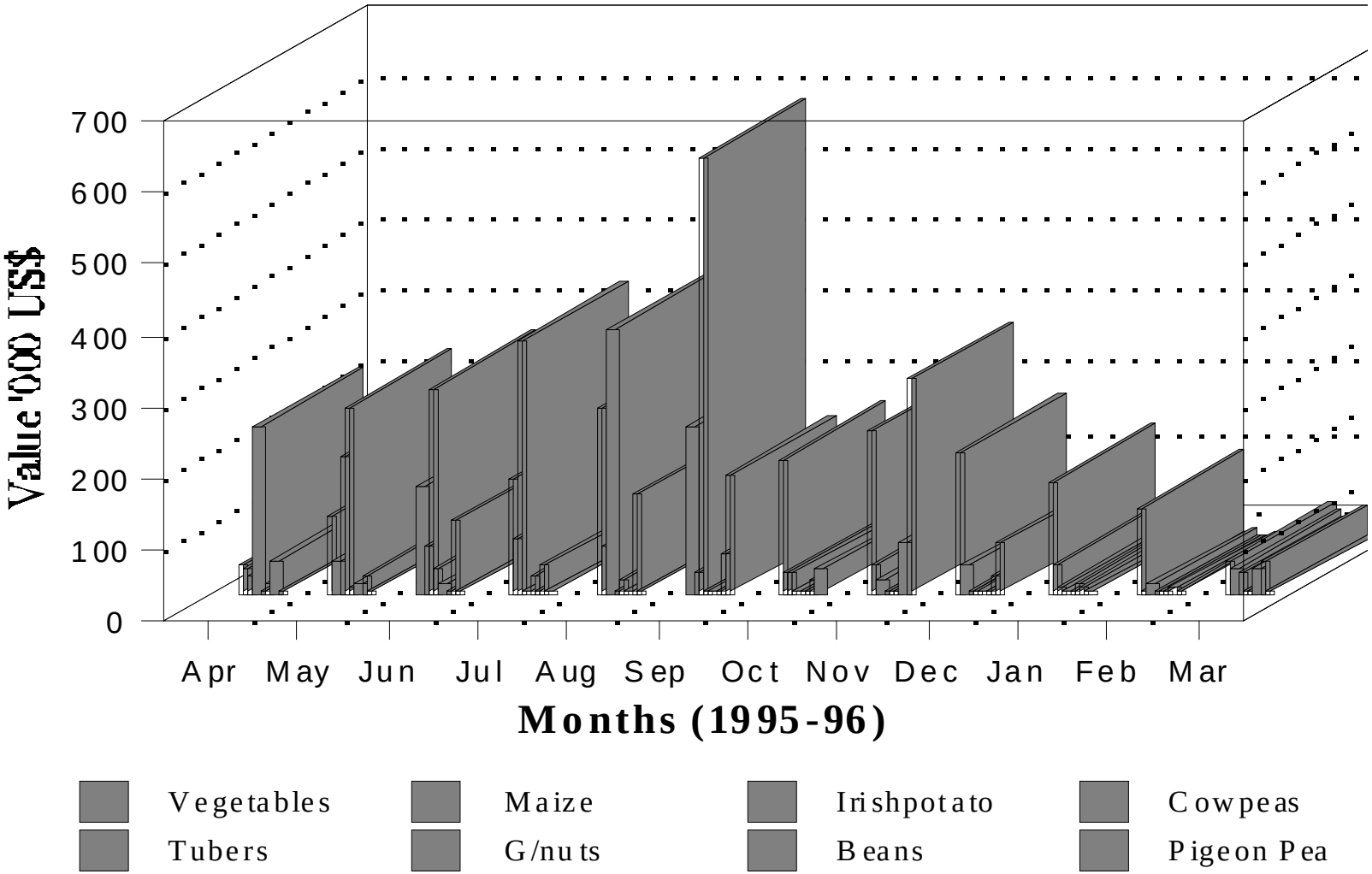
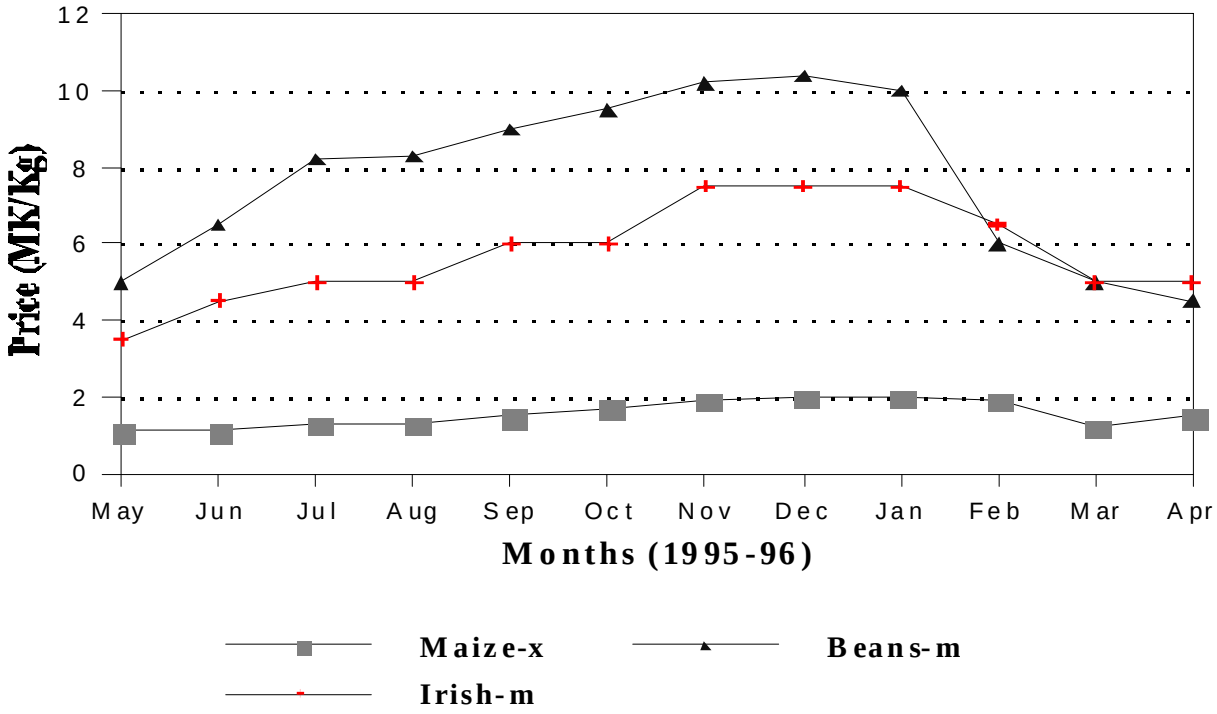


Fig.7 Price Trends for Selected Agricultural Imports and Exports to Mozambique



Non-Agricultural Exports and Imports

Non-agricultural exports from Malawi, valued at US$ 2.9 million, were over ten times (Table 7) the value of those from Mozambique US$ 255,000. The main imports from Mozambique were second-hand clothes (US$ 182,000) and salt (US$ 56,000). All the second-hand clothes were re-exports from Europe and USA and were accessed mainly from Tanzania and Zambia. The main exports from Malawi were sugar (US$ 1.2 million), and second-hand clothes (US$ 1.2 million). Other significant exports were cement (US$ 126,000), and new clothes (US$ 108,000).

MALAWI/TANZANIA UNRECORDED TRADE

Agricultural Exports and Imports

The value of informal cross-border trade in agricultural commodities at the Malawi-Tanzania border was lower than that observed at the Zambian and Mozambican monitoring points. The total trade in agricultural commodities was valued at US$ 1.4 million dollars, which was about a fifth of that observed at the other borders. Malawi's agricultural exports were valued at US$ 762,000, and comprised mainly rice, groundnuts, fish, maize and pigs. The imports of agricultural produce from Tanzania comprising beans, vegetables, potatoes and bananas were valued at US$ 660,000, providing Malawi with a positive trade balance of US$ 102,000 (Table 8).

As in the previous cases, the prices of agricultural commodities showed a marked seasonality (Fig. 10) and were highest during the lean period between August and February, and lowest during the harvest period from April to June. For example, the price of shelled groundnuts doubled from about MK 4.5/kg in April 1995, to MK 9.0/kg in November of the same year, and fell to MK 6.0/g by April 1996. Similarly, the price of beans rose from MK 6.5/kg in April 1995, to nearly MK 13.0/kg in December 1995, and fell to MK 4.0/kg by April 1996.

Table 8. Malawi/Tanzania: Informal Trade in Agricultural Commodities

Exports			Imports		
Commodity	**Quantity (MT)**	**Value (US $ 1,000)**	**Commodity**	**Quantity (MT)**	**Value (US $ 1,000)**
Rice	770	253	Beans	286	209
Groundnuts	833	234	Vegetables	352	200
Fish	70	74	I/potatoes	239	149
Maize	678	70	Bananas	177	81
Pigs		56	Fertilizer	23	9
Napolo	8	13			
Fertilizer	13	5			
Others[1]		57	Others[2]		12
Total		762			660

[1] Include chickens and other types of livestock besides pigs.
[2] Includes sweet potatoes, peas, etc.

Table 9. Malawi/Tanzania: Non-Agricultural Exports and Imports, April 1995 - March 1996

Exports			Imports		
Commodity	**Quantity (MT)**	**Value (US $ 1,000)**	**Commodity**	**Quantity (MT)**	**Value (US $ 1,000)**
Sugar	13,252	4,730	New clothes		3,056
Carlsberg	231	377	SH clothes		1,258
Powers No.1	62	204	Electrical goods		657
Biscuits	484	89	Kitchenware		519
Soaps		60	Bicycle &parts		84
Soft drinks	47	34	Leather goods		45
New clothes		15	Sandals		19
Others[1]		229	Others[2]		111
Total		**5,738**	**Total**		**5,749**

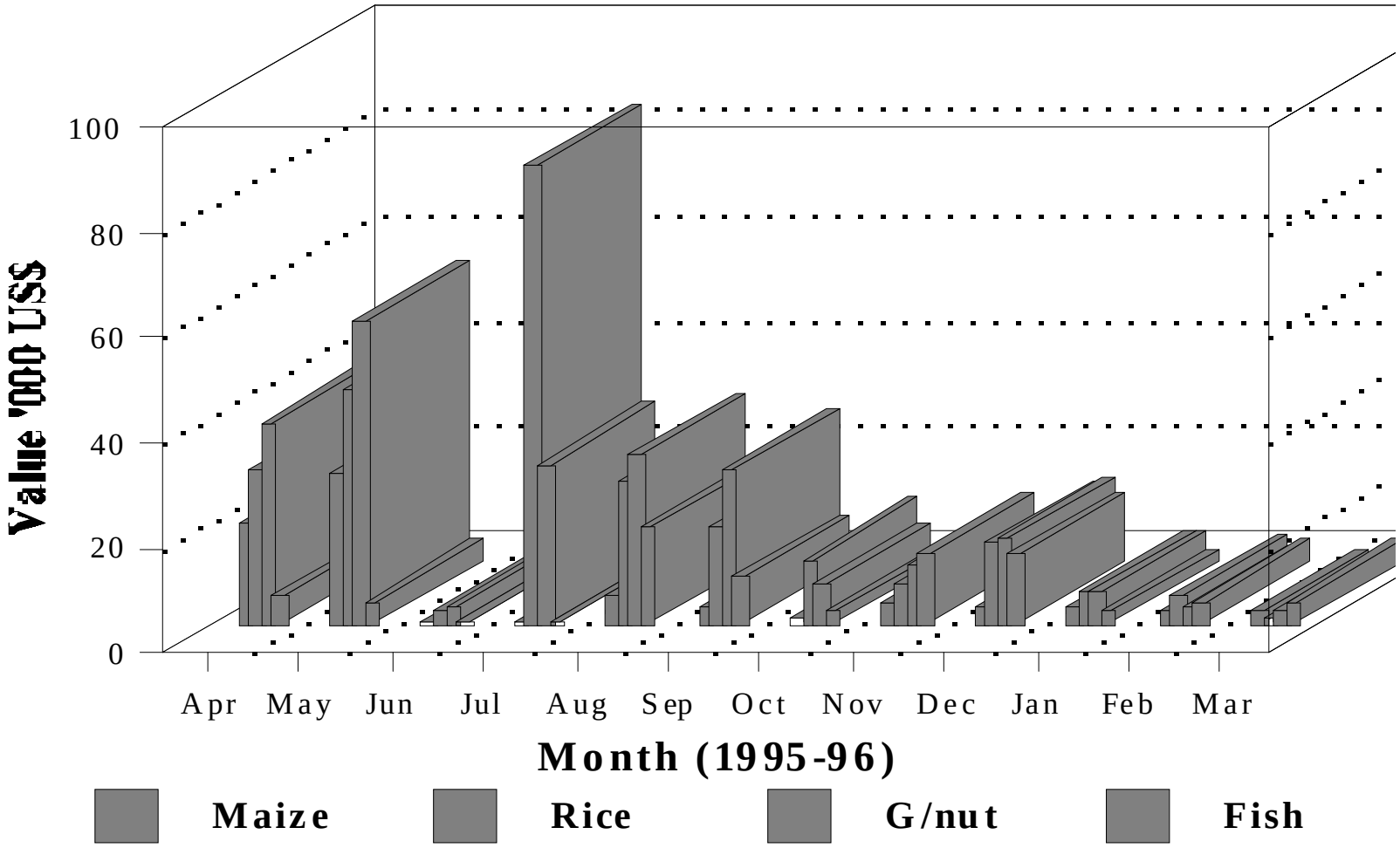
[1] Includes orange squash, second-hand clothes.
[2] Includes sweets, cassettes, etc.

Non-Agricultural Exports and Imports

The informal trade in non-agricultural commodities valued at US$ 11.5 million between Malawi and Tanzania was far larger than that between Malawi and Mozambique (US$ 3.3 million), and fell just a little short of that between Malawi and Zambia (US$ 11.9 million). Malawi exported commodities worth US$ 5.7 million and imported US$ 5.7 million from Tanzania, providing a small trade balance in favor of Tanzania of US$ 11,000 (Table 9).

Fig.8 Malawi/Tanzania Informal Trade

Value of Agricultural Exports to Tanzania



Karonga -border with Tanzania
(April 1995 -March 1996)

Fig.9 Malawi/Tanzania Informal Trade

Value of Major Agricultural Imports from Tanzania

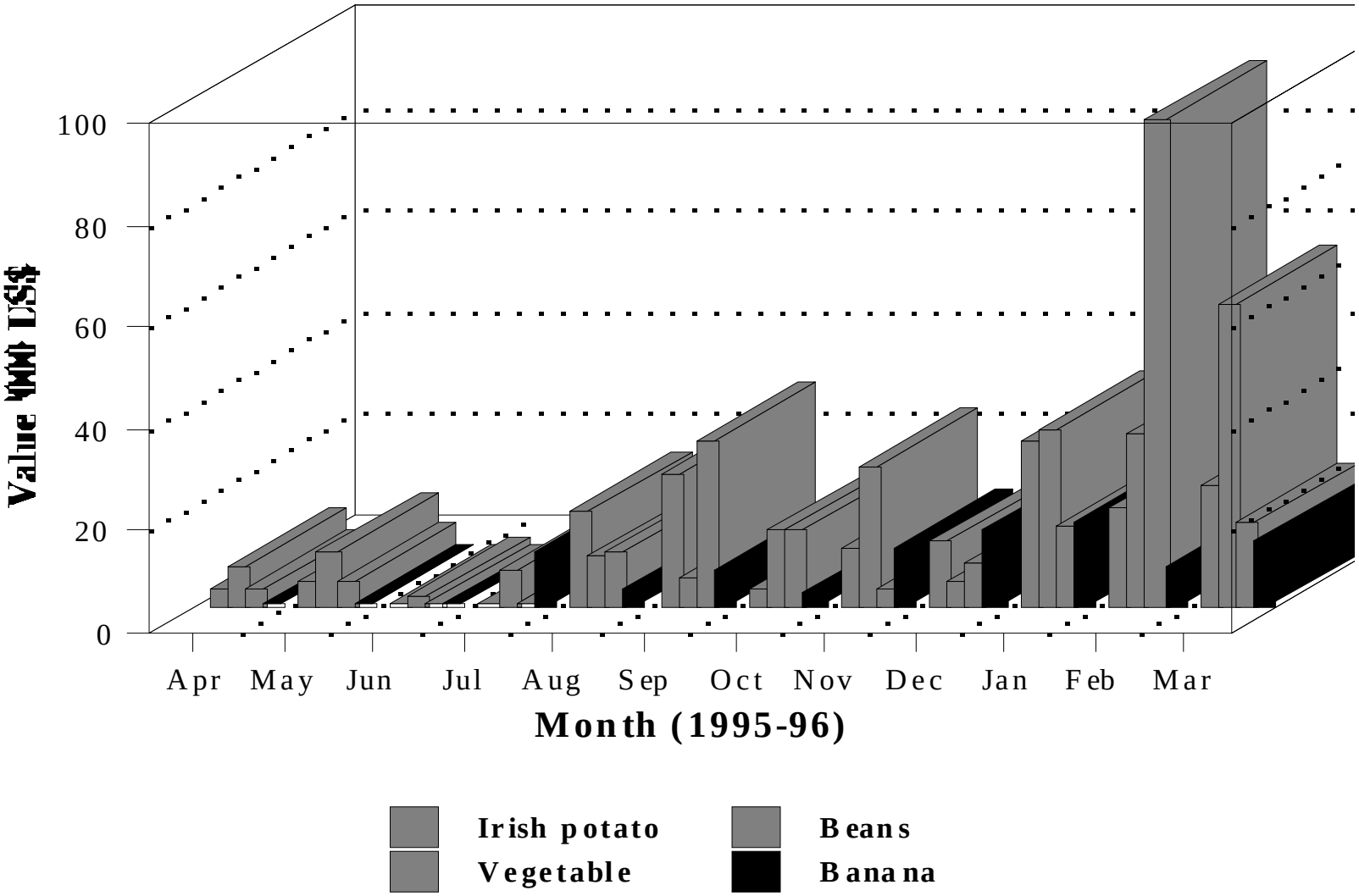
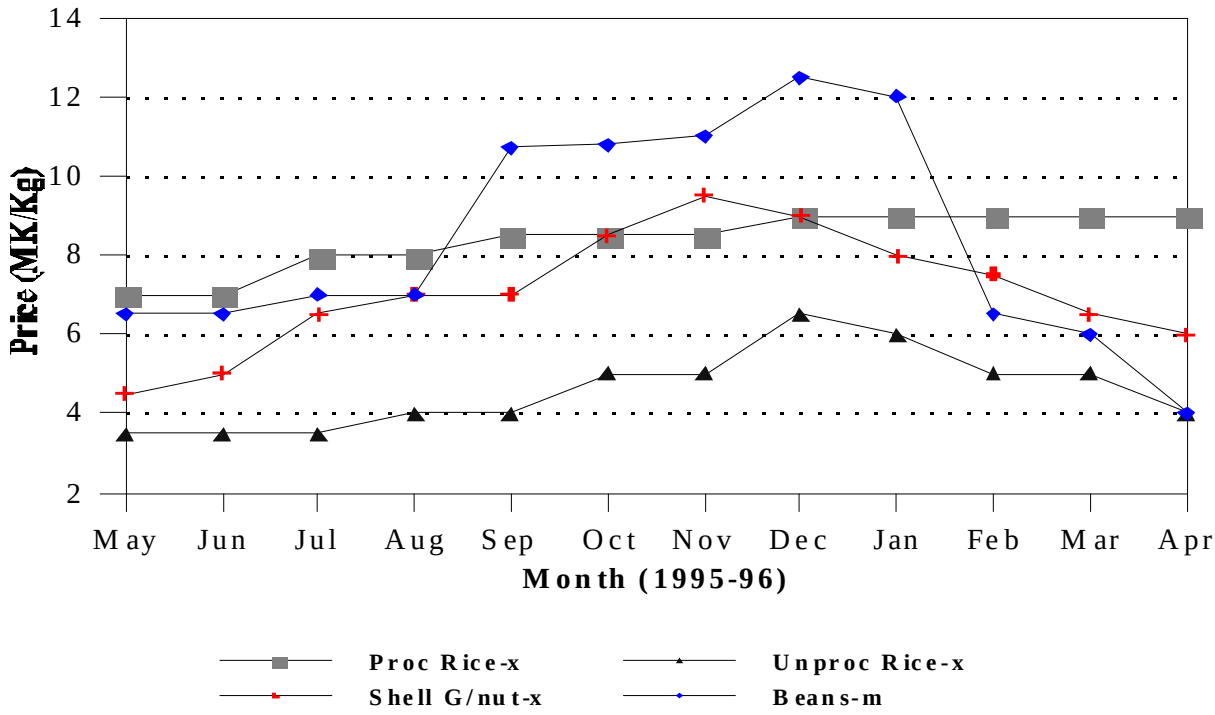


Fig. 10 Price Trends for Selected Agricultural Goods Traded Informally between Malawi and Tanzania



Malawi's exports were dominated by sugar, 13,252 tons valued at US$ 4.7 million, with Carlsberg beer (US$ 377,000), and Powers #1 liquor (US$ 204,000), making up 92.6% of all exports. The imports from Tanzania were dominated by new clothes (US$3.1 million), second-hand clothes (US$ 1.3 million), electrical goods (US$ 657,000) and kitchenware (US$ 519,000), making up 95.5% of all the imports.

MALAWI'S OVERALL UNRECORDED TRADE BALANCE

Table 10 shows the value of unrecorded informal exports and imports observed during the study at the monitoring points. The Table 10 shows that Malawi was a net importer of informally traded goods. It imported agricultural commodities worth US$ 12.6 million more than it exported, and non-agricultural commodities worth US$ 4.0 more than it exported. Except for the tiny positive trade balance of US$ 91,000 with Tanzania, Malawi had trade balance deficits with Zambia (US$ 13.8 million), and Mozambique (US$ 2.9 million), adding up to a total trade balance deficit of US$ 16.6 million.

The total trade between Malawi and its neighbors amounted to US$ 44.0 million. Of this amount, agricultural exports from Malawi were valued at US$ 2.4 million while its imports were valued at US$ 15.0 million. Non-agricultural exports were valued at US$ 11.3 million while imports were valued at USS 15.3 million. The total exports were valued at US$ 13.7 million while total imports were valued at US$ 30.4 million. In regional terms, of the US$ 44.0 million worth of the estimated unrecorded cross-border trade, the greatest share was contributed by Zambia (39%), followed by Malawi (31.1%), Mozambique (15.3%), and finally Tanzania (14.6%).

ANALYSIS OF UNRECORDED TRADE IN SELECTED COMMODITIES

This section provides a brief description of the main commodities traded informally between Malawi and her neighbors. Maize, potatoes, and fertilizer were the main agricultural commodities while sugar, beer, new and second-hand clothes were the major ones among

Table 10. Malawi and Neighboring Countries: Informal Trade Balance Sheet (US $1,000)

Trade With	Exports			Imports			Balance		Trade Balance
	Agricultural	Non-Agricultural	Total	Agricultural	Non-Agricultural	Total	Agricultural	Non-Agricultural	
Zambia	732	2,592	3,324	7,884	9,303	17,187	-7,152	-6,711	-13,863
Mozambique	945	2,933	3,878	6,501	255	6,756	-5,556	2,678	-2,878
Tanzania	762	5,738	6,500	660	5,749	6,409	102	-11	91
Total	**2,439**	**11,263**	**13,702**	**15,045**	**15,307**	**30,352**	**-12,606**	**-4,044**	**-16,650**

the non-agricultural commodities. The description entails the magnitude and direction of trade. Other attributes described in relation to the potential impact on food security include the level of domestic production, trade seasonality, marketing, and consumption requirements.

Maize

Formal and informal trade in maize has significant food security implications because maize is the main staple food in Malawi as well as in the neighboring countries. Typically, Malawi produces about 1.2 million tons of maize annually, but requires about 1.5 million tons to satisfy its population's demand (World Bank, 1996c). There was an estimated deficit of 250,000 tons in 1996, but the figure can rise to as high as 500,000 tons in times of acute food shortage. Informal trade in maize plays an important food security role in meeting part of this food deficit.

During the study period, it was observed that Malawi both exported and imported maize across different border regions and seasons. Over half of the informal maize exports at the monitored trade routes (Table 11) went to Mozambique (58%), a little over a quarter to Zambia (29%), with just over a tenth (13%) going to Tanzania. The total quantity of maize exported amounting to only 4,505 tons was not significant. There were no maize imports recorded from Zambia or Tanzania, with all the imports coming from Mozambique, which amounted to 4,093 tons. The total value of the maize trade was small: US$ 537,000 for export and US$ 484,000 for imports.

The total informal trade in maize observed during the study period amounted to about 8,600 tons. This is

Table 11. Malawi: Maize Exports to Neighboring Countries, 1995/96

Country exporting to	Quantity (MT)	Percentage of Quantity	Value (US $ 1,000)	Percentage of Value
Zambia	1,140	25	158	29
Mozambique	2,687	60	309	58
Tanzania	678	15	70	13
Total	4,505	100	537	100

Table 12. Irish Potato Exports to Neighboring Countries

Country exporting to	Quantity (MT)	Percentage of Quantity	Value (US $ 1,000)	Percentage of Value
Zambia	220	50	131	46
Mozambique	224	50	55	54
Total	**444**	**100**	**286**	**100**

Table 13. Irish Potato Imports from Neighboring Countries

Country exporting to	Quantity (MT)	Percentage of Quantity	Value (US $ 1,000)	Percentage of Value
Mozambique	3,604	94	1,912	93
Tanzania	239	6	149	7
Total	**3,843**	**100**	**2,061**	**100**

a tiny amount and probably only satisfies the food requirements of the local people living around the border posts that were monitored. Factored into the larger national food situation, the total observed exports of 4,505 tons amounted to only 0.38% of national production, while the total observed imports of 4,093 tons amounted to only 1.64% of the 1996 food deficit estimated at 250,000 tons. The total informal maize trade estimated at about 8,600 tons would have contributed to 0.57% of Malawi's national maize requirements. Because this figure only covers the trade routes observed by the study (without sufficient local maize production and consumption data for the study districts of Karonga, Ntcheu, Dedza, Mwanza and Mulanje), it is difficult to arrive at a conclusive assessment of the importance of the observed cross-border informal trade in maize and national food security.

At policy level, informal cross-border trade in maize remains a concern, particularly in terms of its effect on national food security, as liberalized markets become increasingly efficient. With ADMARC having lost its monopoly, and with it the 1,000 or so seasonal buying centers, one would expect the informal cross-border trade to grow rapidly and the domestic maize markets in Malawi to become increasingly privatized. The low volumes of maize trade may simply indicate an initial starting level, given that liberalization was just a few months old when the study began.

Informal maize trade also serves to provide both Malawians and Mozambicans with income and food security benefits at a local level. Mozambique's infrastructure was badly damaged by 30 years of civil war. While Mozambicans make use of Malawian stores, roads, and other market infrastructure to sell their surplus grain and earn incomes, Malawians gain from employment and improved food supply from the trade.

Irish Potato

The informal trade in potatoes (Irish potatoes) is a far bigger one than that in maize. While the total trade in maize amounted to US$ 1.0 million, that in potatoes was more than twice this value at US$ 2.3 million. Over half of the potato exports were to Mozambique (54%) valued at US$ 155,000, and the rest to Zambia valued at US$ 131,000. No exports were observed along Malawi/Tanzania border. Virtually all of the imports were from Mozambique (93%) valued at US$ 1.9 million, and the balance from Tanzania valued at US$ 149,000. There were no imports recorded along Malawi/Zambia border.

Table 14. Malawi: Fertilizer Export Trade

Country exporting to	Quantity (MT)	Percentage of Quantity	Value (US $ 1,000)	Percentage of Value
Mozambique	901	99	354	99
Tanzania	13	1	5	1
Total	**914**	**100**	**100**	**100**

Table 15. Malawi: Fertilizer Import Trade

Country exporting to	Quantity (MT)	Percentage of Quantity	Value (US $ 1,000)	Percentage of Value
Zambia	17,000	96	7,878	96
Mozambique	771	4	309	4
Tanzania*	13	-	5	-
Total	**17,784**	**100**	**8,192**	**100**

**(-) denotes percentage less than 1.*

The estimated level of consumption of potatoes in Malawi was not available, but production is estimated at 100,000 tons (Economic Survey, 1996). The net imports of 3,399 tons show that there is a demand for this commodity, particularly in the larger cities of Blantyre, Zomba, Lilongwe, and Mzuzu. The food security implications of this trade are important in terms of the value of the commodity in the overall context of the estimated informal trade and also in terms of the contribution to the diets of urban residents and institutions such as schools, colleges and hospitals.

Fertilizer

One of the surprising findings from this study was the vibrant informal cross-border trade in fertilizer. As in the case of second-hand clothes, fertilizer is a re-export as none of the countries (Malawi or her neighbors) is a significant fertilizer manufacturer. Fertilizer trade was therefore an indication of the informal sector's capacity to undertake price arbitrage when policy regimes provide the opportunity. The relatively rigid fertilizer markets in Zambia provided the incentives for outflows of about 17,000 tons to Malawi, about 17% of the estimated national consumption level of 100,000 tons.

Zambian traders took advantage of Malawi's recently liberalized fertilizer markets to sell US$ 7.8 million of fertilizer. Fertilizer moved in both directions along the Malawi/Mozambique border with Malawi exporting 900 tons of fertilizer worth US$ 354,000 to Mozambique and Mozambique in turn exporting 770 tons of fertilizer worth US$ 309,000 to Malawi. Trade with Tanzania was insignificant (Tables 14 and 15).

Sugar and Carlsberg Beer

Sugar was the most valuable commodity informally exported from Malawi to the neighboring countries. It accounted for 70% of the value of all the non-agricultural exports and for 58% of the value of all exports. Malawi, according to the estimates in the Economic Report of 1996, produced 224,400 MT and consumed 146,660 MT of white sugar in 1995/96. Malawi had thus a sugar surplus of 75,720 MT of which 17,500 MT (22%) worth US$ 7.9 million was informally exported to the neighboring countries.

Table 16. Sugar Exports to Neighboring Countries

Country exporting to	Quantity (MT)	Percentage of Quantity	Value (US $ 1,000)	Percentage of Value
Zambia	2,319	13	1,960	25
Mozambique	1,877	11	1,205	15
Tanzania	13,250	76	4,730	60
Total	**17,446**	**100**	**7,895**	**100**

The price differential between the export price US$254.63 per ton (MK 3.9 per kg) during this period, and the prevailing domestic prices in the neighboring countries that averaged MK 10 per kg, made informal cross-border trading in sugar a very lucrative activity. Most of the sugar (Table 16) was exported to Tanzania (60%), with 13,250 tons worth US$ 4.7 million traded through the Karonga trade route. Zambia was the next most important market (25%), importing 2,319 tons valued at US$ 2.0 million, while Mozambique (15%) imported 1,877 tons worth US$ 1.2 million. There were no informal imports of sugar from the neighboring countries along the monitored trade routes, indicating Malawi's clear comparative advantage.

As in the case of sugar, there were no records of beer being informally imported from the neighboring countries. Over 80% of the beer exports worth US$377,000 went to Tanzania. Zambia and Mozambique each imported about the same quantity (10%), valued at US$ 43,000 and US$ 37,000, respectively (Table 17). Beer exports (formal and informal) dropped drastically after the study period following the rehabilitation and expansion of Tanzania's beer industry.

Both sugar and beer provide evidence of Malawi's temporary comparative advantage in their manufacturing. Tanzania and Mozambique have far greater potential for both sugar cane production and processing. Both countries serve larger markets and have greater agricultural areas suitable for sugar cane production. Both countries, however, have lost this advantage as a result of poor management and public ownership of industrial capacity in Tanzania, and a long drawn out civil war following independence in Mozambique. Tanzania has now privatized many state enterprises including those in the brewing and sugar industries while Mozambique is rehabilitating its infrastructure and industrial facilities. These developments could provide greater competition for Malawian products in the near future.

Textiles

Second-hand clothes were the most important non-agricultural import observed along the monitored trade routes. Valued at US$ 10.2 million, the second-hand

Table 17. Exports of Carlsberg Beer to Neighboring Countries

Country exporting to	Quantity (MT)	Percentage of Quantity	Value (US $ 1,000)	Percentage of Value
Zambia	29	10	43	9
Mozambique	28	10	37	8
Tanzania	231	80	377	83
Total	**288**	**100**	**457**	**100**

Table 18. Second-Hand Clothes Export and Imports

Country exporting to	Quantity (MT)	Percentage of Quantity	Value (US $ 1,000)	Percentage of Value
Zambia	-	-	8,785	86
Mozambique	1,184	100	182	2
Tanzania	-	-	1,258	12
Total	**1,184**	**100**	**10,225**	**100**

Table 19. Import and Export Trade of New Clothing Materials

Country exporting to	Quantity (MT)	Percentage of Quantity	Value (US $ 1,000)	Percentage of Value
Zambia	79	39	514	14
Mozambique	108	54	4	-
Tanzania	15	7	3,056	86
Total	**202**	**100**	**3,574**	**100**

clothes, contributed two thirds (67%) of the value of all of Malawi's non-agricultural imports and one third (34%) of total imports. Although Malawi also exported second-hand clothes during the same period to Mozambique worth US$ 1.2 million, it was a net importer to the tune of US$ 9.0 million dollars. Zambia was the most important source of these clothes, providing 86% of all imports valued at US$ 8.8 million (Table 18), followed by Tanzania's exports of US$ 1.3 million (12%) and a tiny amount from Mozambique worth US$ 182,000 (2%).

One possible explanation for this trade was that Zambia had a more favorable tariff policy for imported second-hand clothes compared to Tanzania, or even Mozambique. Another speculative explanation was that cheap railway transport using the TAZARA railway provided Zambian business persons with more competitive transport costs than those faced by Malawians. The informal second-hand exports to Mozambique, which has its own ports, probably reflects the advantage Malawi's superior infrastructure provides and the opportunities that allow her traders to export what are probably re-exports of second-hand clothes from Zambia and Tanzania to Mozambique.

In addition to being a net importer of used textiles, Malawi was also found to be a net importer of new textiles during the period of the study. Malawi exported new clothing materials worth US$ 202,000 to Mozambique (US$ 108,000), Zambia (US$ 79,000), and Tanzania (US$ 15,000). The country imported new textiles worth US$ 3.6 million from Zambia (US$ 514,000), Tanzania (US$ 3.1 million), and Mozambique (US$ 4,000). Malawi was therefore a net importer of new textiles valued at US$ 3.4 million (Table 19). As in the case of second-hand clothes, some of the new textiles were re-exports.

5. Comparison of Formal and Unrecorded Cross-Border Trade

AN OVERVIEW OF MALAWI'S FORMAL TRADE

Agricultural commodities comprise virtually all of Malawi's formal exports to the rest of the world. In 1996 (Table 20), tobacco, valued at US$ 325 million was the largest single export commodity accounting for 62% of all exports. The second largest export category comprised various re-exported goods valued at US$ 59 million and contributing for just over 10% of the total export value. Other important export commodities in terms of value were tea and sugar valued at US$ 33 million each, and cotton and coffee valued at US$ 21 million and US$ 19 million, respectively. There were no official exports of maize during this year although the commodity had been exported in the previous two years, 1995 (US$ 5 million) and 1994 (US$ 2 million). The key destinations for Malawi's formal exports (in descending order) were USA, Japan, South Africa, Germany, and the United Kingdom (Economic Report, 1994). The imports, usually comprising industrial plant and transport equipment, food and other manufactured commodities, were largely from these same countries. The exception was Zimbabwe which replaced the USA as Malawi's second most important source of imports (Table 21).

THE REGIONAL FORMAL TRADE

The formal exports to neighboring countries are relatively low compared to those to the nations in Table 21 above. The total value of exports to Mozambique was US$ 5.1 million in 1994, comprising mainly tobacco, sugar, plastics and maize-based preparations. The main formal imports from Mozambique were common salt and mineral fuels. The value of formal exports to Zambia was US$ 9.4 million, and comprised mainly milled cereal products, oilseeds, wood and aluminum, with re-exports comprising 10% of this value. In return, Zambia formally exported to Malawi cereals, fertilizer, salt and textiles. The formal exports to Tanzania, were sugar, cooking oils, spirits and beverages amounting to US$ 1.8 million. Imports amounted to US$ 1.4 million and constituted salt, iron and steel, electrical machinery and vehicle parts and accessories (National Statistical Office, 1996).

COMPARING FORMAL AND INFORMAL (UNRECORDED) TRADE

In attempting to make a comparative analysis of the formal and informal cross-border trade, a number of methodological adjustments were made so as to make the primary data collected on the informal data comparable to the secondary data sources for the formal trade.

- All commodity prices were converted to US$ dollar prices, making it possible to make cross-sectoral and cross-country comparisons.
- Several of the informally traded commodities do not appear in the categories used in publishing formal trade statistics, making comparisons between the two types of trade difficult in some instances. For example, the classification of commodities into "agricultural" and "non-agricultural" goods used in this study is not used in the formal trade statistics. Comparisons can be made in those instances where commodity classifications coincide.
- The latest year for which formal trade data was available was 1994, while the informal trade primary data covered the periods from April 1995 to July 1996. To make sound comparisons, the price data collected for the informal trade in 1995/96 was converted into constant 1994 US dollars.

Table 20. Principal Export Commodities, 1993-1996 (Million US $)

Commodity	1993	1994	1995	1996
Tobacco	213	256	267	325
Tea	36	30	29	33
Sugar	17	26	32	33
Cotton	2	2	4	21
Groundnuts	0	0	-	-
Rice	0	1	2	2
Coffee	8	15	17	19
Pulses	1	1	8	16
Maize	0	2	5	0
Other exports	32	31	57	59
Total dom. exports	309	364	421	508
Re-exports	9	8	12	13
Total	**318**	**372**	**433**	**521**

Source: Economic Reports, 1996 p 13.

Using these assumptions, a comparative analysis of formal and informal cross-border trade between Malawi and her neighbors was attempted. Table 22 shows the initial results of this analysis. In terms of the total value of exports to neighboring countries, the formal trade was estimated at US$ 9.5 million, which was 69.3% of the informal cross-border trade. Similarly, the total value of formal imports from Malawi's neighbors was estimated at US$ 18.9 million, which was 62.2% of the total value of informal trade. In all cases, except in the case of trade with Mozambique, the value of trade was usually lower than that of the informal trade. In the case of Mozambique, Malawi's formal exports were about 1.33 times greater than the informal ones.

The lowest level of formal trade recorded was that between Malawi and Tanzania, where the value of formal trade was about a quarter of the estimated value of the informal cross-border trade. This is an indicator of the substantial potential for increasing formal trade between the two countries were transaction costs to be lowered. If this argument is pursued further, then it would appear that transaction costs for carrying out formal trade with Zambia and Mozambique were lower and that the Malawian economy was more integrated with the economies of these countries than with that of Tanzania.

A cautionary note worth sounding here is that the ICBT study probably monitored only about 60% of the value of the informal cross-border trade. This is because all of the trade that passes through the borders at night was not observed; nor was it possible to get estimates of the value of commodities that pass through customs points but are under-declared, mis-specified or otherwise improperly taxed and recorded. If this assumption is correct, then the volume and value of the informal cross-border trade is far larger than that presented in Table 22 above.

The gap between the formal and informal trade flows was quite large, implying that substantial transaction costs still form significant barriers to the former in these economies. Reforming the tariff and non-tariff trade barriers, and reducing the excessive bureaucratic nature of formal trading within the four countries and between them, remains an essential requirement for increased formal trading between Malawi and her neighbors.

Table 21. Destination of Exports and Origin of Imports

EXPORTS		IMPORTS	
Country	% of total exports	Country	% of total imports
USA	17.1	South Africa	47.6
Japan	13.7	Zimbabwe	10.2
South Africa	10.9	UK	5.8
Germany	10.3	Japan	5.0
UK	8.6	Germany	4.6
Total	**60.6**	**Total**	**73.2**

Source: Economic Reports, 1992-1994.

Table 22. Malawi Export and Import Trade: A Comparison of Formal and Informal Trade (US $1,000,000)

	EXPORTS			IMPORTS		
Trading with	**Formal**	**Informal**	**% of formal to Informal**	**Formal**	**Informal**	**% of formal to Informal**
Zambia	2.5	3.3	75.8	13.2	17.2	76.7
Mozambique	5.2	3.9	133	4.4	6.8	64.7
Tanzania	1.8	6.5	27.7	1.3	6.4	20.3
Total	**9.5**	**13.7**	**69.3**	**18.9**	**30.4**	**62.2**

Source: Figures for formal trade obtained from the National Statistics Office, Zomba.

6. Implications of Unrecorded Cross-Border Trade

GOVERNMENT REVENUE

Taxes on exports and imports typically provide an important source of revenue for many African governments, including Malawi. While participants engaged in formal trade pay such taxes, one of the key characteristics of informal cross-border trade is its ability to evade such taxes. The tax evasion aspects of informal cross-border trade lie at the heart of charges by many government officials that this form of trade is "illegal". Yet, not all forms of informal trading avoid taxes altogether, since many of the manufactured goods, or even agricultural goods, are taxed at the local authority level or point of sale before their purchase for trading purposes by the cross-border traders.

The taxes evaded are the excise and customs duties for those commodities that are dutiable. Again, not all commodities are dutiable, with agricultural commodities such as maize and fertilizer being duty exempt. The commodities appearing in Table 23 are some of the commodities informally traded which are dutiable. The agricultural commodities are taxed at 10%, except for beans and soybeans that are taxed at 25%. Table 23 shows the value of revenue foregone by the Malawian government as a result of informal cross-border trade in dutiable agricultural commodities.

The value of revenue foregone by the Malawian government as a result of the informal cross-border trade in the above commodities at the trade routes monitored was estimated at US$ 762,000 or MK 11 million. The three heavily traded commodities, vegetables (US$ 225,000), potatoes (US$ 206,000), and beans (US$ 191,000), contributed 29.5%, 27%, and 25% of the revenue losses, respectively. The total revenue lost from informal exports of these three commodities amounted to US$ 622,000, accounting for 81% of the revenue lost through informal trade in agricultural commodities. Assuming that the observed trade recorded 60% of actual value of informal cross-border trade, the estimated revenue losses from untaxed agricultural commodities would rise to US$ 1.3 million or MK 18.3 million.

Similarly, Table 24 shows the revenue losses to the Malawian government from informal trade in non-agricultural commodities. The commodities considered for this calculation included the dutiable items of second-hand clothes, electrical goods, new clothes, kitchenware, shoes, and bicycle spares. For each of these commodities, the import duty was 45% with a surtax of 20%, except for the shoes and bicycles. Shoes and bicycles were dutiable at 50% and 40% respectively, and with surtaxes at 30% and 20%, respectively.

The largest losses of revenue came from second-hand clothes (US$ 7.6 million), new clothes (US$ 2.6 million), electrical goods (US$ 534,000), and kitchen ware (US$ 385,00). The revenue losses from textiles were the most significant, accounting for 90% of all the revenue lost through informal trade in non-agricultural commodities. The second-hand clothes (mainly re-exports) and new clothes amounted to 67% and 23%, respectively of the total revenue foregone. The total revenue loss of about US$ 11.0 million dollars or MK 170 million through trade in non-agricultural commodities, was a large sum for an economy the size of Malawi. Assuming that the observed informal cross-border trade recorded only 60% of the actual informal trading, the total revenue losses through informal trade in non-agricultural commodities would rise to about US$ 19.0 million dollars, or MK 283 million. This latter figure is equivalent to 5.2% of the MK 4.5 billion government budget for the financial year 1996/97 (Malawi Government, Ministry of Finance, 1996).

The overall (for both agricultural and non-agricultural commodities) revenue loss from observed in-

Table 23. Missed Revenue from Taxes on Unrecorded Imports of Major Agricultural Goods

Commodity	Value of Imports (US$ 1,000)	Duty Rate (%)	Tax Revenue Missed (US$ 1,000)
Beans	764	25	191
Vegetables[1]	2,249	10	225
I/potatoes	2,061	10	206
Cow peas	522	10	52
Pigeon peas	560	10	56
S/potatoes	56	10	6
Others	257	10	26
Total			**762**

[1]Vegetables include cabbages, tomatoes and onions.

formal cross-border trade was thus valued at about US$ 12.0 million or MK 181 million, which is about 4% of the 1996/97 budget. This is a significant level of revenue that would have helped close the government budget deficit. If all of the informal trade (including that not observed during the study) is considered, then the overall revenue loss would rise to US$ 20 million, or MK 300 million, which is 6% of the government budget for the 1996/97 financial year, and about 70% of the annual allocation to the agriculture sector (Economic Report, 1996, p105).

The analysis above shows that the government of Malawi is losing substantial amounts of revenue as a result of informal cross-border trading. It also provides indicators of the reasons. For example, a duty of 50% on shoes together with a surtax of 30%, adds to an accumulated tax burden of over 80%. Such high tariff levels, combined with the various non-tariff barriers discussed earlier, provide ample incentives for engaging in informal trading. Therefore, reforms are needed in reducing the tariff levels, rationalizing entry requirements into formal trading, and reducing or eliminating various types of non-tariff barriers, if the government is going to attract more entrepreneurs into formal trading and receive some of the revenue that it is now losing.

INCOME AND EMPLOYMENT GENERATION FOR FOOD SECURITY

The analysis in the previous sections has shown that the informal cross-border trade has significant implications, regionally, if not nationally, for income generation, employment generation and food security. The trade provides opportunities for entrants to perform several types of specialized and semi-specialized functions which would not be available in the formal economy. These entrants become assemblers, traders, couriers, transporters, and money changers, serving the local communities and business across the borders. These services do not only make trading easier, but they also provide a multiplier effect through the provision of other services to the local communities.

The income generated from the trade was estimated at about 25% of the value of the trade, which would imply that the border communities surveyed gained at least US$ 11 million, that was consumed in local goods and services. The employment and income generated by the trade facilitated increased access to food by the participants and their families and also provided market opportunities for local producers. The trade in agricultural

Table 24. Missed Revenue from Taxes on Unrecorded Imports of Major Non-Agricultural Goods (US $1,000)

Commodity	Import Value	Import Duty	Surtax Collection	Total Missed Revenue
New clothes	3,574	1,608	1,036	2,644
Kitchen ware	519	234	151	385
Electrical goods	657	296	238	534
Leather goods	45	23	20	43
Bicycles and parts	92	37	26	63
SH clothes	10,255	4,615	2,974	7,589
Others	120	54	35	89
Total	**15,262**	**6,867**	**4,480**	**11,347**

commodities provided three types of opportunities. During the period immediately after harvest, it provided markets for surplus farm produce, and income to the local producers. During the long period between harvest and planting, the trade provided these producers with opportunities to invest their capital in other non-agricultural activities. The imports of grains, pulses, and vegetables, also provided food for households that were not able to produce sufficient amounts for themselves, whether in the locality of the trade or further inland in the major towns such as Lilongwe, Blantyre, and Zomba. The food security equation has four major components: production, availability, accessibility and utilization. Broadly, the first two are supply side components while the latter two are demand side components. The presence of informal cross-border trade, particularly in agricultural commodities such as maize and potatoes, stimulated the production in both countries by providing a market for surplus output. For the deficit households and regions, the trade increased the availability of these commodities on the local markets. In both instances, the supply of the commodities was increased, as a marketable surplus for the producers, or as purchasable commodity on local markets for the consumers.

The income generated by the informal trade, as a result of the employment and receipts to producers, also made local food markets more competitive and provided increased access to food by consumers. For example, the income generated by trading with Mozambique in non-agricultural produce enabled Malawian consumers to acquire maize, potatoes, vegetables and beans. The substantial flows of food made it cheaper and more affordable to Malawian consumers. On the aspect of utilization, the diversity of agricultural commodities traded provided consumers with the opportunities to afford a more nutritious and balanced diet.

An additional important dimension to food security is location. Food insecurity tends to be localized to certain regions and socio-economic classes. The quantities of food informally traded along the observed trade routes were not large relative to the food needs of the country. As shown above, the quantity of maize traded was less than 5% of the production deficit. It can be assumed, however, that this quantity was significant locally to those food deficit households within the proximity of the trade routes.

MORAL HAZARD ISSUES

A particular area of concern in the cross-border informal trade was the issue of protecting both the producer and consumer of agricultural produce from moral haz-

ard arising from lack of knowledge or inaccurate descriptions of the health and quality impacts of products sold. Guaranteeing that products such as groundnuts, maize flour, and other commodities, are traded within acceptable health (e.g. aflatoxin levels), phytosanitary and quality standards are difficult if not impossible to maintain under informal trade. Similarly, ensuring that chemical products such as fertilizers, seeds, and pesticides sold on informal markets meet the required nutrient, germination, and toxicity levels, respectively, is difficult. The protection of society from the moral hazard consequences of unregulated trade in potentially dangerous commodities is typically the task of governments, and yet by definition, governments are excluded from informal cross-border trading. An important area of moral hazard is the enforcement of contracts or the solution of trade disputes, both of which are covered by law under formal trade. Although such concerns are legitimate, there was no sufficient evidence to suggest that informal trading posed any such hazards in the case of Malawi.

SOCIO-ECONOMIC IMPLICATIONS

One of the key defining characteristics of informal cross-border trade is that it does not appear in the national accounts. Yet as has been shown above, the trade is economically significant. It is an important employer of persons, whether at the border regions or those in the major cities such as Lilongwe, Blantyre, and Zomba, whose livelihoods depend on the flow of the agricultural and non-agricultural commodities. Formal sector manufacturing concerns and their employees are also beneficiaries of the expanded markets created by the informal traders for soft drinks, beer, sugar and other commodities.

The significance of used clothes as the largest informal import is not lost, as these clothes serve a large section of the urban and rural poor who are unable to afford new clothes. The informal imports of electrical goods, new textiles, and shoes are also indicators that this trade serves a different socio-economic stratum from that served by formal imports of the same items. Most of the goods traded informally reach poor households in large cities in convenient small packages and at affordable prices. The savings in cost made by tax evasion are sufficiently large to allow for a reasonable profit margin for the informal vendors. Finally, although the formal export trade is twenty times the value of the informal trade, it is limited to a few large firms and probably does not provide the type of equitable opportunities for entry and distribution of benefits that are possible under informal trade.

Indeed, the character of Malawi's informal trade is symptomatic of what is going on in other countries in the region. The increased penetration of the informal markets into all spheres of economic activity arises from a nexus of three developments: the liberalization of economic management by governments; the greater social and economic freedom arising from both economic and political liberalization; and, the decreasing size of the formal sector relative to the rest of the economy. As the informal sector becomes an increasingly important component of the national economy and a major contributor to national socio-economic progress, it will be necessary for the national accounting systems to factor it into their planning and resource allocation processes.

ADMINISTRATIVE IMPLICATIONS

The dynamic and spontaneous nature of the informal cross-border trading provides a picture of what truly deregulated trade would look like in a world where there were no taxes to be paid and no compulsory quality and health standards to be observed. It also provides a picture of the type of economic momentum that would be released if the stifling licensing, foreign currency, and other bureaucratic regulations were repealed. The agility with which informal cross-border traders undertake price arbitrage to take advantage of cross-border policy reforms or rigidities (fertilizer trade with Zambia), and structural deficiencies (beer and soft drinks trade with Tanzania and Mozambique), shows the potential of greater trade deregulation and regional coordination in trade policy reforms. In many ways, the informal trader recreates a world that operates as if governments and regulations did not exist.

In a real world, however, governments exist. These governments need revenue and trade (in largely open economies) is a major source of this revenue. Governments also have a duty to enforce regulations that protect consumers of goods and services from moral hazard arising from those who do not observe phytosanitary, quality or health standards. In addition, the laws provide the environment for enforcing and arbitrating trading contracts. Although the bicycle and portage couriers have forged associations that vet all participants to ensure that contracts are enforced, and disputes are arbitrated, this is still an important role for the government to play, particularly as the volume of the informal cross-border trade grows.

The preliminary results of this study show the necessity of finding a way in which the dynamic energy, spontaneity, and agility of informal cross-border traders can be formalized, without stifling or killing the activity. For this to happen, the governments have to confer a legal and economic legitimacy to the informal cross-border trading, and the informal traders have to acknowledge the legitimate revenue collection and regulatory roles of the government. In other words, how can the overall trading environment in the country be reformed so that it is able to provide all participants with many of the benefits of the informal trade, while at the same time providing the government with a legitimate role that allows for it to raise revenue and provide an enabling regulatory framework.

POLICY IMPLICATIONS AND RECOMMENDATIONS

Informal cross-border trading is an important contributor to Malawi's economy. This report has highlighted its origins, determinants and magnitude. We conclude the report by offering a few suggestions on steps which should be taken to enhance trade between Malawi and her neighbors.

First, there is need to further deregulate the economy. Trade barriers such as the registration and licensing of traders and semi-liberalized foreign exchange regulations need to be reformed with a view to eliminating those that are redundant and reducing to a minimum those that must be retained for good governance. The reduction of duties and elimination of surtaxes is recommended. Similarly, the rationalization of tariffs on agricultural commodities is necessary; for example, why levy a 25% duty on beans, and none on maize or fertilizer? The reduction and rationalization of tariffs and the elimination of unnecessary bureaucratic hurdles would go a long way in increasing the level of formal trade.

Second, there is a need to harmonize the trade policy and internal market deregulation processes regionally so that all the regional countries are in some form of tandem. Regional cooperation is also required in the area of double taxation, harmonization of quality and health standards, and a common approach or law to contract enforcement and dispute arbitration. Similarly, it is important to adopt a more rational approach to local currency trading. Malawi and her neighbors should consider dropping the insistence on US dollar as the transacting currency for formal trade between them. This has been done in East Africa where the Kenyan, Uganda, and Tanzanian shillings are mutually convertible, thus allowing formal trade to be conducted in the local currencies.

Third, cross-border trade in food commodities should be encouraged, with food deficit countries such as Malawi actively pursuing a regional food security strategy. For example, her neighbors, namely, Tanzania, Mozambique, and Zambia, are endowed with abundant supply of land suitable for food production. By actively encouraging cross-border trade, Malawi could quite easily close her annual food deficit which range between 250,000 tons and 500,000 tons without diverting scarce national resources to importing such food from outside the region at higher prices. A common food strategy policy by all the four countries to allow open and legal informal food trade, with only minimal health and quality requirements, would have significant positive food security implications for the region.

Fourth, the criminalization of the informal trade should be rescinded so as to create a better enabling environment for the assemblers, couriers, and money changers, who are tolerated at the discretion of the cus-

toms and police officers. Rather, some form of minimal legal recognition of these participants in the informal cross-border trade should be instituted. For example, the assembler or courier or money exchange associations could be granted some form of legal recognition. The *bona fide* members would then be accorded legal protection against harassment by police or customs officials while being required to pay some form of presumptive customs tariff. The decriminalization of the informal cross-border trade will be critical in creating the momentum towards enabling this trade to play its rightful role in the economy.

We further offer the following specific recommendations:

1. Regional governments should view the movement of food commodities across their borders in a positive manner. In order to enhance trade in agricultural commodities, import duties should be abolished. The Malawian government's ability to collect taxes is limited by the poorly equipped customs points. The border itself is long and porous, while the local people do not pay too much attention to it. At the same time, the results of the study appear to indicate that the implicit welfare gains arising from informal cross-border trade in food commodities probably surpass the value of the lost revenue.

2. There is a clear case for reducing the tariff rates on non-agricultural goods because they are quite prohibitive; the combined rate of the customs duty and surtax exceeds 50%. The tariff reductions could be implemented in stages, commodity by commodity, with sufficient time allocated for communicating the changes to those in the public and private sectors in order to avoid confusion. The gradual reduction in tariffs would allow the government and other stakeholders to observe the impact of such a policy on trade flows, formal and informal trading behavior and tax revenue collection.

3. As continued economic liberalization leads to even greater cross-border trade, and with the informal traders increasingly desiring the use of local currencies, there will be a growing demand for governments to consider dropping the insistence on denominating regional formal trade in convertible currencies such as the US dollar. This study has provided evidence that shows high volumes (and values) of cross-border trade and extensive use of local currencies for cross-border transactions. The governments in the region should facilitate this trend.

4. The drive towards export diversification has largely focused on formal trade and overseas markets. This study has shown that export diversification policies should also focus on regional markets which may have substantial potential for absorbing a wide range of agricultural and non-agricultural commodities, including those commodities that have been traditionally exported to overseas markets.

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